Grafton Group Limited

Annual Report For The Year Ended January 31, 1980

Established 1853

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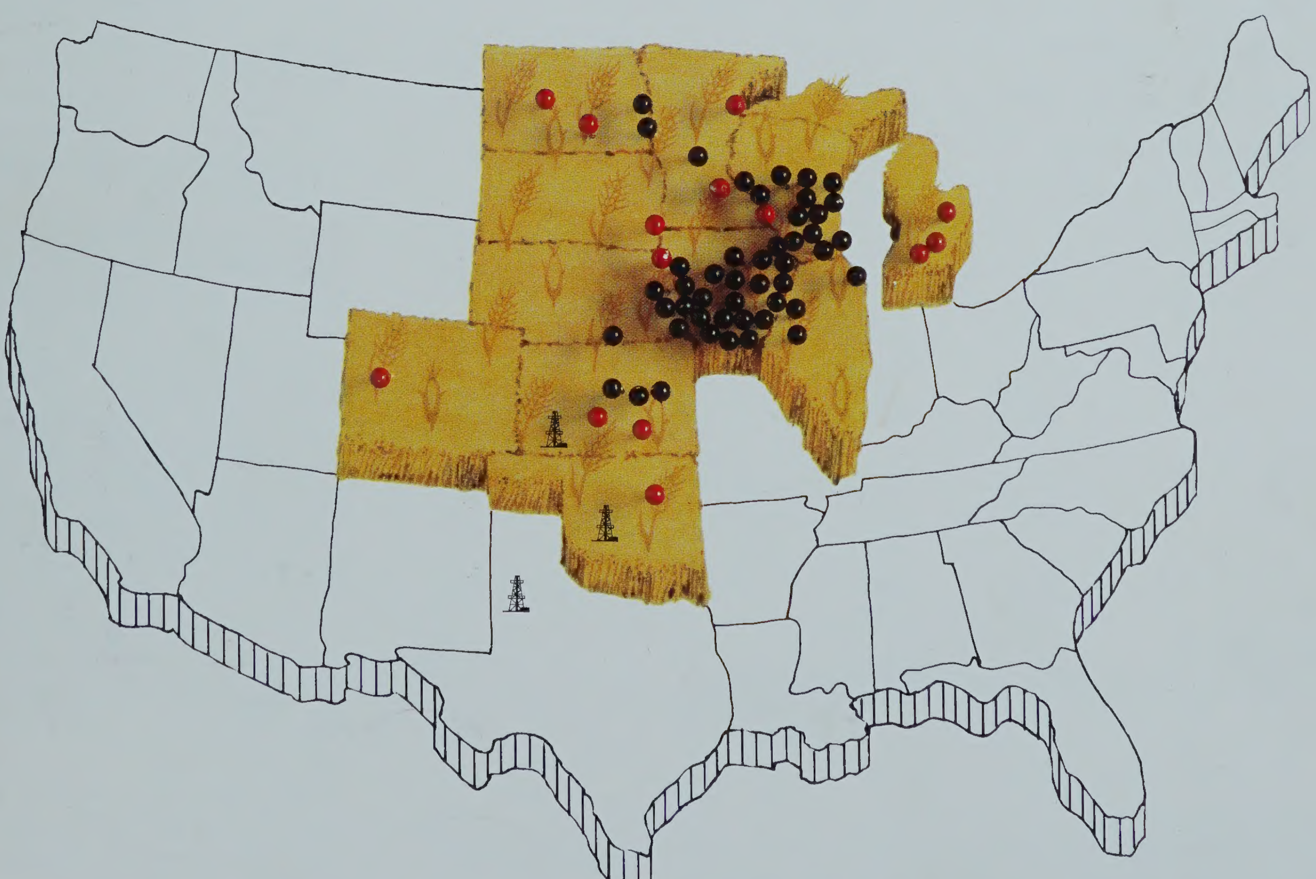
New Directions



Contents

Business of the Company

CANADA

The Company is a specialty retailer of apparel and footwear. Men's and boys' wear is sold through leased departments in each of the 105 Woolco Stores in Canada. Men's wear is sold through 109 Jack Fraser Stores. Junior ladies' sportswear is sold through 83 Loft Departments and 9 Sideffects Stores. Footwear is sold in 195 shoe stores under the names Maher, Reid, Copp, Bonita, Barcley-Lanes and others. In addition, the Company owns a homefurnishings subsidiary which manufactures and wholesales products for bedroom and bathroom decoration.

UNITED STATES

Through subsidiaries, the Company operates 51 ladies' wear stores in 7 midwest states and 13 ladies' shoe stores in 2 states.

HEAD OFFICE
9 Sunlight Park Road, Toronto M4M 3G1 (416) 461-9411
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ANNUAL MEETING

The Annual Meeting of Shareholders will be held at 10:00 a.m., April 25, 1980 in Toronto at the Hotel Toronto, 145 Richmond Street West.

	Year Ended January 31,			% Change	
				1980	1980
	1980	1979	1978	over	over
	Omitting 000's			1979	1978
TOTAL SALES	**$240,694**	**$194,255**	**$169,683**	**+ 23.9**	**+ 41.8**
Retail Divisions					
Apparel					
Canada					
Stores	**53,135**	43,183	36,456	+ 23.0	+ 45.8
Licensed Woolco Departments	**103,700**	95,687	86,460	+ 8.4	+ 19.9
	156,835	138,870	122,916	+ 12.9	+ 27.6
United States (5 months)	**17,500**				
	174,335	138,870	122,916	+ 25.5	+ 41.8
Footwear					
Canada	**48,603**	41,231	34,165	+ 17.9	+42.3
United States (2 months)	**1,199**				
	49,802	41,231	34,165	+ 20.8	+ 45.8
	224,137	180,101	157,081	+ 24.5	+ 42.7
Homefurnishings Division	**16,557**	14,154	12,602	+ 17.0	+ 31.4
Income from operations before depreciation, interest and amortization	**34,970**	29,133	22,965	+ 20.0	+ 52.3
Income from investments and interest	**3,314**	1,985	916	+ 67.0	+261.8
Depreciation and interest expense	**6,132**	3,812	3,491	+ 60.9	+ 75.7
Income before taxes	**31,815**	27,164	20,227	+ 17.1	+ 57.3
INCOME BEFORE EXTRAORDINARY ITEM	**18,210**	**14,993**	**11,012**	**+ 21.5**	**+ 65.4**
NET INCOME FOR YEAR	**18,210**	**14,993**	**11,258**	**+ 21.5**	**+ 61.8**
Earnings per class A and common shares before extraordinary item	**2.61**	2.10	1.46	+ 24.3	+ 78.8
Dividends paid					
Preference shares	**1.50**				
Class A	**.20**				
Common (new)	**.20**				
Common (old)	**.38**	.76	.67		
Total comparative dividends, regular	**1.08**	.76	.67	+ 42.1	+ 61.2
Special Dividend		.50			
Working Capital	**69,759**	52,597	42,869	+ 32.6	+ 62.7
Shareholders' equity	**74,580**	59,757	43,643	+ 24.8	+ 70.9
Average number of class A and common shares outstanding	**6,246,340**	6,060,304	5,748,708		
Percentage of net income to sales	**7.57**	7.72	6.63		
Effective tax rate percentage	**42.5**	44.5	45.1		
Current ratio	**2.4:1**	3.0:1	3.3:1		
Earnings as a percentage of shareholders' equity	**24.4**	25.1	25.8		
Dividends as a percentage of net income (regular)	**18.5**	15.2	17.1		
Special dividend as a percentage of net income		10.4			

Conflict of Interest
The Company has in effect a formal Conflict of Interest Policy covering areas of concern in respect to the conduct of directors, officers and senior employees.

The owners of Seifert's and George Richards prior to the Company being associated with them entered into leases with their respective companies for 6 retail locations. The leases were at competitive rates and terms.

We are confident that all directors and senior management of the Company have and will continue to conduct themselves in an ethical manner.

FACTS RELATING TO UNDISCLOSED OR UNRECORDED LIABILITIES

Store Opening Expenses
All expenses relating to store openings are expensed in the year in which the store opened.

Pension
The Company has no liability in respect to past or current service benefits.

Contingent Liabilities
With respect to the investment in shares of Forsyth Trading Company Limited, Grafton Group Limited has guaranteed 50% of certain notes payable by Forsyth. Grafton Group Limited's contingent liability at January 1, 1980 amounted to $139,000, (1979 $277,000) and totally expires in August, 1980 when the above notes mature.

For lease commitments refer to note 9 on page 26.

There were no advances or loans to officers or directors. (See note 4 on page 23 regarding the employee stock purchase plan.)

Current Value Accounting
Based on current replacement costs and using our present depreciation rates, the estimated net book value of our leasehold improvements and fixtures is approximately $1,500,000 in excess of the net book value recorded in the accounts. The extra charge to income, after tax, would be approximately $110,000 or 1.8¢ per share if this form of accounting had been in force. The value of the lands and buildings on a replacement cost basis owned by Grafton Realty Company, Limited and Maher Inc. has not been taken into account in the calculations and no adjustment has been made for other assets or liabilities.

Foreign Exchange Exposure
In both of the Canadian retail companies, about 15% of all merchandise purchased is denominated in U.S. dollars.

In our manufacturing company, about 50% of purchases of raw material is denominated in U.S. dollars. At the present time, the Company is not hedged.

The borrowing to fund the United States acquisitions has been in U.S. funds, to minimize the impact of foreign exchange gains or losses. Should the Canadian dollar become closer to par with its U.S. counterpart, earnings will be reduced and will be increased if the reverse should occur.

CORPORATE GOALS IN RESPECT TO EARNINGS AND DIVIDENDS

Earnings
The Company aspires to achieve an average annual compound growth of fully diluted earnings per share of 15% or greater in an environment of average inflation of 9% or less and in a viable economic climate.

Dividends
The Company believes a total dividend payout ratio of between 25% and 30% of the previous year's earnings is appropriate for the near term.

OWNERSHIP OF THE COMPANY
Greywinds Investments Limited, and its shareholders, G. R. Chater, W. P. Gilbride, W. A. Heaslip and G. A. Reynolds, own 50.9% of the common shares, and 39.3% of the equity shares of Grafton Group Limited.

Other directors and senior officers own approximately 5.8% of the common shares.

Welcoming voice of the Company for over 40 years, Beth Glenday.

In our 126th year, the Company achieved a reasonable increase in earnings in a difficult environment. This result is reflected in consolidated earnings of $18,210,000, an increase of 21.5% over last year.

At last year's annual meeting the shareholders overwhelmingly approved a capital reorganization which is described in the following manner. Effective June 1, 1979, for every 5 old common shares, each shareholder received 1 preference share Series A, 8 class A shares and 2 new common shares. For example, a holder of 100 old common shares was entitled to receive 20 preference shares Series A, 160 class A shares and 40 new common shares.

Earnings per class A and common share, after giving retroactive effect to this reorganization, including provision for the preference share dividends, were $2.61, a 24.3% increase over the previous year.

Initial quarterly dividends of $.10 per new class A and common share were established as of September 15, 1979 and effectively, if the preference dividends were included, increased the regular payout on the old shares by 42% for the year.

The senior personnel of Grafton-Fraser Inc., our largest subsidiary, were reorganized some eighteen months ago. Dislocation and the learning process of new roles caused some short term inefficiencies, and the results, modestly improved from last year, are still disappointing, notwithstanding the extremely difficult and competitive marketing conditions that were experienced.

Maher Inc., our footwear retailing enterprise, continued its significant earnings improvement accomplished over the last few years, and has matured into a highly productive and rapidly growing area of group activities.

Our homefurnishings company, Toby Industries Limited, experienced a gratifying improvement in earnings, due mainly to the dominant position the McGregor Division has established in the market for its bath products. This is the first year for McGregor that both sales and earnings have exceeded those of the Toby Division.

The most interesting event of this past year was the purchase in August of 100% of the shares of Seifert's Inc. The funding of this purchase was accomplished by medium term financing arranged through a group of Canadian Banks. We welcome Mr. James Seifert, President and Chief Executive Officer of Seifert's to our management group. During the short time together we believe the two organizations have already achieved a degree of synergistic co-operation.

Maher (U.S.) Inc., a subsidiary of Grafton Group, purchased the Oak-Bay Corporation of Appleton, Wisconsin, the operator of 13 higher quality ladies shoe stores. The territory overlaps that of Seifert's and we believe they can work together in some interesting space sharing ways over a period of time.

Because of the financing previously referred to, our balance sheet continues to be strong. Liquid assets and working capital have increased 53% and 32% respectively. Cash and Near Cash continue to exceed all long term debt by 42%, after giving effect to the U.S. purchases. The Company has invested in a strong portfolio of high yielding liquid common and preferred shares. The largest component of the portfolio is $25,000,000 of floating rate preferred shares of a major Canadian Corporation, which the Company may require a Canadian chartered bank to purchase, at par, upon short notice.

On February 2, 1979 the Company agreed to invest up to $3,000,000 per annum, directly, over five years, in joint ventures in exploration and development of oil and gas producing properties in Canada and the U.S. by Mission Oil and Gas Limited. The results for the first year have been positive and we are satisfied that this decision has been justified.

The unsettled political climate of Canada, North America and the world is most disheartening and while inflation is expected to accelerate, we conclude that in regard to the retail commodities we are selling, price increases will average 6% or less due to the efficiency of our procurement organization and the competitive market place. Current unprecedented high interest rates are a matter of tremendous concern, although the Company is reasonably hedged through its security portfolio. Both major political parties have indicated their intention to increase the corporate tax rate. While this may be construed as an indication of fiscal responsibility, primary manufacturing, oil and gas, mining and financial service companies have various means to shelter themselves substantially from present and future corporate rates of tax through existing incentives or investment tax shelters. The effect, therefore, falls unduly on some service industries, particularly the distributive trades.

We anticipate that the current year will be one of consolidation of the new activities. It is our intention to concentrate on the growth and profitability of existing divisions and the improvement of our liquidity and debt equity ratios. All managers are expected to be sorely tried by difficult competition and a reluctant confused consumer. We do expect, however, that our managers will achieve significant market share increases in all retailing divisions resulting in profitability at least equal to, or surpassing this past year, depending on influences beyond our control.

On behalf of the Board of Directors

G.R. Chater
President
March 11, 1980

CORPORATE RESPONSIBILITIES

The Company has endeavoured to provide full disclosure and information to its shareholders and the financial community. These efforts have resulted in the Company winning the Financial Post Annual Report Award for its class in the last two years that we were eligible.

We have strived to expand the Company's fields of endeavour as rapidly as possible, consistent with financial responsibility. The Company's shares were originally issued to the public in 1971 at $10.75. After taking into account share divisions and capital reorganization, the equivalent market value of the original shares is $55.00. Dividends have been paid continuously since that date and total $7.35 on these shares. The common shares were divided in 1977, on a 3 for 2 basis and the capital structure reorganized in 1979 to provide different participation vehicles and increase the number of shares in the hands of the public.

In 1974, convertible debentures were issued in part payment for the common shares of Maher Inc. The debentures were called in 1978, one year before maturity and 97% were converted into common shares.

In 1977, 10.5%, 20 year sinking fund debentures, Series A, were issued at par and were rated B++ at that time by the Canadian Bond Rating Service. The rating has been upgraded to an A by that Service, based on last year's financial statements.

In 1979, the Company arranged to finance the purchase of Seifert's Incorporated by medium term borrowing through three Canadian Chartered Banks and has received assurances that should other acquisitions occur, the necessary funds are available if funding were required.

COMMUNITY

The Company endeavours to support a limited number of worthwhile projects across the country with financial and human resources.

Toronto East General Hospital Expansion Fund Campaign

T. E. Topping accepted the Chairman's role in the 1979 campaign to raise $2.2 million dollars to complete and furnish the additions to the Toronto East General Hospital during its 50th anniversary year.

Dr. W. F. James

St. Francis Xavier University, Antigonish, Nova Scotia, on March 12, 1980 inaugurated the Dr. W. F. James Chair of Studies in the Pure and Applied Sciences.

"in grateful recognition of an illustrious alumnus, a renowned geologist, a pioneer in resource development, a champion of worthy causes, a gentleman of humane instinct and sterling integrity".

This Chair was generously supported by the many friends of Dr. James including Grafton Group, its directors and officers. Dr. James has been a Director of Grafton Group Limited since 1967.

Celebrity Snowarama — Bradford

Since 1975, Whipper Watson's Snowarama for Timmy and the Society for Crippled Children at Lake Simcoe has raised over $500,000 and attracted some 2,500 volunteer riders.

On Sunday, February 10, 1980, William Heaslip drove a snowmobile successfully over the 100 kilometre course. Grafton-Fraser Inc. had raised pledges totalling over $12,000 for the Ontario Society for Crippled Children based on Mr. Heaslip negotiating the course.

Up up and away for the Expansion Fund Campaign.

Frederick Memorial Scholarship Fund

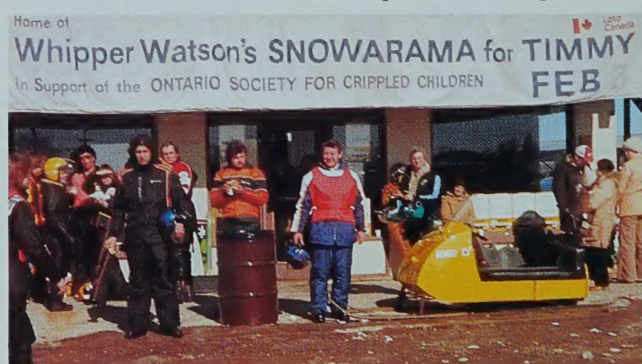
In 1978, a Frederick Memorial Scholarship Fund was established in memory of Keith and Chris Frederick, at West Hill Collegiate Institute. The Fund was created by Grafton Group, employees, associates and friends.

Since the Fall of 1978, 12 major scholarship awards have been made to graduates and 12 minor awards to undergraduates.

Letters of appreciation from the recipients indicate they have obviously been helped and encouraged by the Memorial Fund.

Winner of the Financial Post Gold Award for the 1977 and 1979 Annual Reports.

W.A. Heaslip at the start position.



T. Edward Topping
Executive Vice President
Grafton Group Limited.
Born in 1923, Mr. Topping joined the R.C.A.F. from high school where he became a pilot and served overseas. After demobilization in 1946, he joined A. Bradshaw and Son, Limited, also working when possible for Jack Fraser. In 1960, A. Bradshaw purchased Jack Fraser Stores Limited. Mr. Topping was appointed Vice-President and General Manager, Jack Fraser Stores Limited in 1963. After the merger of Grafton's and Jack Fraser Stores in 1967, he became a Director and Vice-President of Grafton-Fraser Inc. and a Director of Grafton Group Inc. In 1971 he was appointed President of Grafton-Fraser Inc. a position which he relinquished upon being promoted to Executive Vice President of Grafton Group Limited in 1978.

The Most Exciting Event of this Past Year: The Acquisition of Seifert's Inc.

By way of background, it became apparent to Canadian retailers in the mid 1970's that opportunities to expand in their own country were likely to decline. Developers, frustrated by the demands of local municipalities, were finding the accumulation of land both expensive and difficult. The leaders in the shopping mall development field in Canada began to diversify their activities to the U.S.A. where their investments would, in contrast, be welcomed. At this time, emanations from Ottawa were to the effect that business and private persons could expect much more involvement by government in their affairs.

In his January 31, 1977 report to shareholders, our President G. R. Chater, stated: "Looking to beyond 1980, we are now conducting a professional evaluation of the opportunities for specialized retailers in the United States". A Canadian company, with 125 years of retailing experience, thus launched a programme to make it international in scope, with up to 40% of its assets invested in a recognized growth area, free from socialist theory.

All available data indicated that certain areas were growing at a more rapid rate than others. With conventional wisdom, the Sun Belt, because of population growth and energy costs, was deemed to be the most attractive area for growth and our efforts were directed there. Reports indicated ladies sportswear to be the leader in both sales and profit and we focussed our attention on this area.

Mr. Chater indicated a year later (January 31, 1978) that "our Company was at a competitive disadvantage on negotiating acquisitions as we were unknown in that market and American lawyers were unfamiliar with the value of Canadian obligation and jurisdiction". We lost a major American Sun Belt acquisition in the sportswear field to a U.S.A. corporation offering the identical proposal after having reached agreement in principle on price and terms. Other attempts were unsuccessful for various reasons.

Our next negotiations were more extensive and were almost finalized. This American Sun Belt company, since the termination of negotiations, has not performed as it was anticipated and has found it necessary to change its corporate direction. Their revised merchandising plan placed heavy emphasis on self service shoe stores and much reduced emphasis on men's and ladies' wear, in which we held our greatest interest.

Mr. Chater commented in his January 31, 1979 report: "We regret that our activities (in the U.S.), not inconsiderable in time and expense, have yielded such barren results but, we do intend to achieve a base in the country (U.S.A.)".

Fortunately, these years of time and effort have not been wasted as we gained valuable experience and insight into the American market and its various components. Many other opportunities have been reviewed and contact was finally made with Messrs. Seifert. From the beginning, there was an obvious compatibility with the ethics, style and business judgement of the principals, that had been lacking in previous negotiations.

Seifert's Inc. is unique, for in dominating their market of mid west farm states they have been accepted by their customers of varying ages from 17 to maturity, as opposed to the usual more limited age group appeal of other chains. Their customers appreciate fashion blended with service. There is a customer loyalty that was developed during the college years and extended through the family years to the more affluent adult.

While Mr. James Seifert has described his Company's future growth on page 10, Grafton Group feels proud of its American associates and is enthusiastic with their potential. With a population 10 times the size of our own, the opportunities for expansion and future acquisition in the United States are substantial.

T. E. Topping

T. E. Topping
Executive Vice President
Grafton Group Limited

Arnold L. Lucas
President, Grafton-Fraser Inc.
Born in 1935, Mr. Lucas joined the Company on a part-time basis in 1947 and commenced working full-time 5 years later. During the next 15 years, he held increasingly responsible positions – Clothing Salesman, Store Manager, Supervisor, Display Manager and Assistant General Manager, Stores. In 1971, he became Vice President, Leased Department Division with overall responsibility for the operation of the Men's and Boys' Wear Departments in Woolco Department Stores and became Senior Vice President, Leased Departments in 1974. In November 1978, Mr. Lucas was promoted to President, Grafton-Fraser Inc.

Business of the Company

Grafton-Fraser Inc. is engaged primarily in the retail sale of menswear. The Company is also a major retailer of boyswear and is now expanding rapidly in the field of women's junior sportswear.

As of year end 1979 the Company operated 105 Licensed Departments in Woolco Department Stores.

One hundred and nine Jack Fraser menswear stores and 10 Jacks contemporary young men's shops were in operation.

The Jack Fraser premises were shared in 83 locations by The Loft, a women's junior sportswear boutique. From one prototype shop opened in 1978, Sideffects, a new women's sportswear chain was quickly developed with 9 stores opened by year end.

George Richards Kingsize Clothes Limited, a chain specializing in apparel for big and tall men and owned 50% by Grafton-Fraser Inc., opened 3 new stores for a total of 16.

Grafton-Fraser Inc. 1979 sales reached $156,835,000. This increase of 12.9% consisted of an 8.4% increase in the Licensed Departments in Woolco and a 23% increase in Company Owned Stores' sales.

Profits improved nominally to $11,586,000 with satisfactory expense control in all Divisions. Profit margins were depressed due to extra promotional merchandising required to reduce inventories and maintain our position in the highly competitive 1979 retail climate. Inventories, at year end, remained in excess of plan, primarily in the Licensed Departments.

The overall results of the Company Owned Stores Division, which accounted for 34% of Grafton-Fraser sales, were gratifying in view of the successful openings of 18 Jack Fraser, 18 Lofts and 9 Sideffects Stores achieved with a difficult retail environment.

Increased investments in data processing and data capture systems, capital costs of new and renovated retail locations and the development of divisional management and supervision, should prove increasingly beneficial to the growth of the Company.

Jack Fraser Stores

Eighteen Jack Fraser stores were opened in 1979 for a total of 109 locations in operation at year end. Existing stores were renovated to new store standards and no locations were closed.

A keen competitive climate, particularly evident in the fourth quarter, caused lower profit margins but ending inventories were at a satisfactory level.

At least 18 Jack Fraser stores are planned to open in 1980.

The Womenswear Division

The Womenswear Division consists of 84 The Loft boutiques and 9 Sideffects stores. The impressive womenswear same condition sales increases achieved in Spring 1979 were not equalled in the second half but final sales results and ending inventory levels were satisfactory. Eighteen Lofts were opened in 1979 and good progress was made in the areas of merchandising, square footage sales and staff development. At least 13 Lofts are planned to open in 1980.

Results from the first year's operation of the 9 store Sideffects chain indicate the concept merits continued national expansion. Seven more stores are scheduled to open in 1980. Leasing opportunities in shopping centres, including downtown developments have been enhanced by the expansion of this Division.

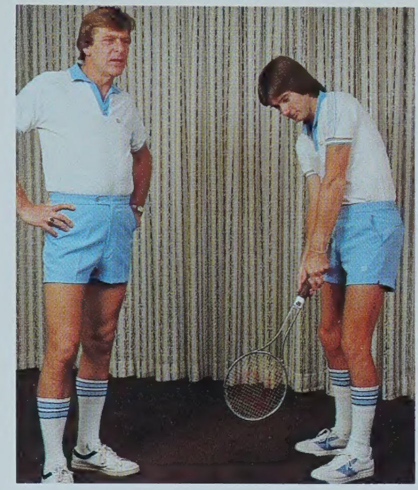
Left to right: J.B. Coutts, A.L. Lucas, E.C. Frederick, J.R. Walker.

The acquisition by Grafton Group of the 51 store Seifert's womanswear chain in the U.S. has provided a valuable source of expertise and information exchange for the Womenswear Division.

George Richards Kingsize Clothes Limited

George Richards, with 16 stores in operation, is Canada's largest chain of speciality apparel stores for big and tall men. This growth Company is 50% owned by Grafton-Fraser Inc.

The specialized merchandising expertise of George Richards, combined with Grafton Fraser's buying power, real estate department, data processing facilities and techniques will ensure the steady development of this Company as a national chain.



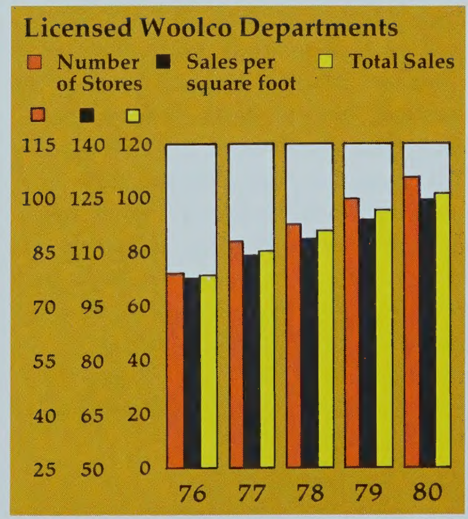
Arnold Lucas and Jimmy Connors work out prior to meeting on 1980 fashions

Business of the Division

All Men's and Boys' Wear Departments in the 105 Woolco Department Stores in Canada are operated under license agreements by Grafton-Fraser.

The departments sell apparel geared to the day-to-day needs of Canadian males of all ages including in-depth assortments of boyswear.

One new Woolco department was opened in the Spring and 4 were opened in the fall of 1979.



Licensed Departments in Woolco

The Licensed Woolco Departments achieved sales of $103,700,000. The 1979 sales increase of 8.4% in total and less than 5% in same condition departments was below target. After a very unsatisfactory 6.7% increase in the first half year, sales improved somewhat during the balance of 1979 but were adversely affected, particularly in November, by unusually mild weather and lack of snow in most regions.

The Division, heavily inventoried with winter seasonal, basic and gift merchandise and up against high fourth quarter 1978 sales figures, incurred reduced profit margins from heavy promotional and competitive activity during this period. These adverse conditions, coupled with overly aggressive purchasing, created excessive inventory levels that persisted through the year end.

Grafton-Fraser will operate departments in 9 new Woolco Department Stores scheduled to open in 1980.

The merchandising direction of the Licensed Departments in 1980 will continue to be based on good value and full assortments of staple, fashion and leisure apparel, marketed mainly under private labels but augmented by a growing number of well-known Canadian brand name products.

1980 sales increases are forecast to be moderately stronger than in 1979. Heavy promotional activity will be an increasing factor in sales achievement and the resulting pressure on profit margins will be offset only by tighter inventory management and continued disciplined expense control.

A. L. Lucas
President
Grafton-Fraser Inc.

Left to right:
N. Parker, R.A. Evans, M.D. McLean, R.O. Hutchinson, B.A. Reynolds, F. Grasby, J. Lawrence, G. Charlebois.

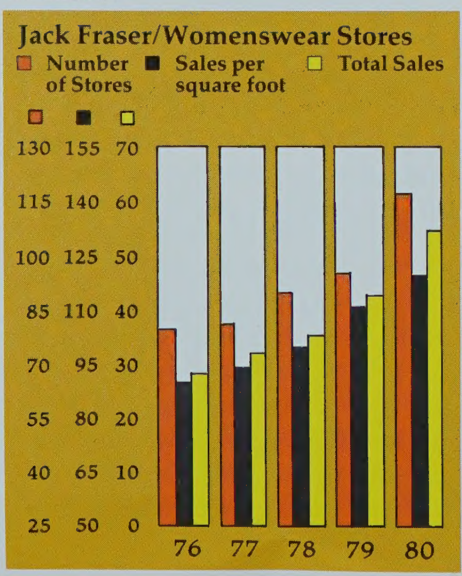
Jack B. Coutts

Senior Vice President, Grafton-Fraser Inc. Born in 1924, Mr. Coutts served in the R.C.N.V.R. from 1943 to 1945. On his return to business life, he became a store manager with Maher Inc. During the years 1946-1966, he held the positions of Supervisor, Buyer and Vice President and in 1967 was appointed President and Director of Maher Inc., offices he held for four years.

In 1971, he joined the Grafton group of companies and was appointed Vice President-Stores for the Jack Fraser Division. He was promoted in 1974 to the office of Senior Vice President-Stores, a position he continues to hold.

Business of the Division

The Division operates 109 Jack Fraser Stores, 83 Loft Departments, 9 Sideffects Stores and 10 Jacks Shops across Canada. Jack Fraser Stores sell men's apparel. Loft Departments sell junior ladies sportwear. Sideffects Stores sell contemporary womenswear. Jacks Shops sell young mens' fashions.



The year 1979 will be remembered as a successful one for the Company Stores Division. New store openings established an all time record, and sales exceeded our original projections in what was considered a weak apparel retail environment.

This growth and expansion has now provided us with the base on which to build strong regional representation on the prairie provinces and both the West and East coasts and serves to strengthen our role as a national apparel retailer.

Good December sales, which unfortunately came extremely late, and realistic markdowns, resulted in well balanced inventories that were up approximately 3% in existing stores. Markdowns were higher than forecast, but this was necessary in order to maintain our reputation for competitive values.

Our capital costs were higher than in previous years, but future return on investment will justify the expenditures. We are continuing a programme of remodelling and upgrading our stores, which is essential to our national identity as a fashion retailer.

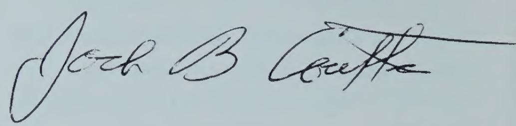
Effective expense control remained a high priority throughout the year and was the leading factor in our higher profit performance. Our ability to control expenses is one of our major strengths in these inflationary times.

The medium price clothing and casual wear sold by Jack Fraser Stores, mainly through suburban shopping centre locations, appeals to men from 18 to 60 years of age who seek current fashion plus value. The growing number of men in the 25 to 35 age group now constitute the majority of Jack Fraser customers.

The Womenswear Division continues to expand.

Our long range plans emphasize an accelerated expansion of new store openings which currently are encouraging.

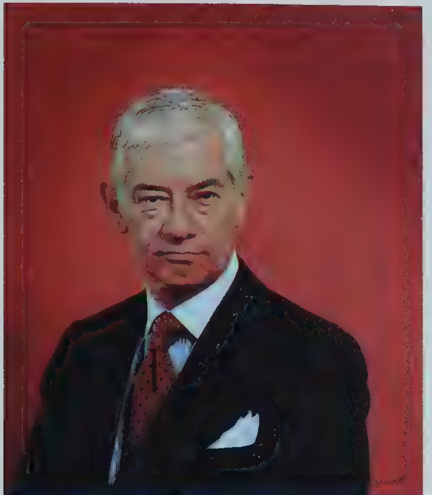
In summary, the Company stores experienced a rewarding year, the success of which is a direct reflection of the dynamic and outstanding people that make up our organization. We were also able to identify areas of potential improvement. The prospects for 1980 indicate continuing success.



J. B. Coutts
Senior Vice President
Company Stores
Grafton-Fraser Inc.

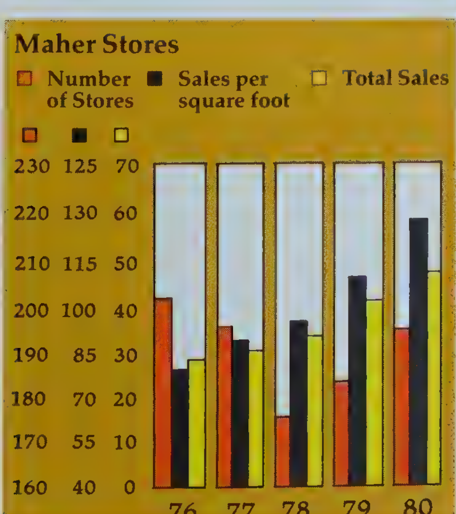
Womenswear Division
Left to right: R. E. Cardwell, W. O'Connor, D.E. Dyck, G.A. Stonehouse.

Jack Fraser Stores
Left to right:
M. Sneyd,
J.T. Quinlan
P.D. Bickerton
H.M. Sanders
B. Anyon



Thomas P. Wilson
President, Maher Inc.
Born in 1932, Mr. Wilson started his career with Maher as a part-time, after school sales clerk at the age of 14. In 1950, Mr. Wilson joined Maher on a full time basis and progressed through various managerial assignments until 1960 when he joined the head office team as a supervisor. He was elected a Director of Maher in 1962, appointed Vice President in 1967 and promoted to President in 1971, a position which he still retains.

Business of the Company
Maher operates 195 retail stores across the country. Its Divisions consist of Maher, Bonita, Shoeman, Copp, J. Reid, Barcley-Lanes and Leased Departments. The various Divisions cater to different types of customers and cover the medium and higher priced shoe range.



Maher has enjoyed another successful year in fiscal 1979, as sales and earnings have, again, reached all-time highs. It was a year of opportunity and achievement and one of the most productive periods in the history of the Company.

The improved operating performance across the country was attributable to substantial increased sales volume in existing locations, together with the continued strong emphasis on individual store productivity and profitability. These initiatives have now resulted in higher quality stores, better locations and increased sales and profit per outlet. As part of this ongoing expansion, 17 new stores were opened, 10 were remodelled, and 5 were closed during the year.

Effective November 1, 1979, the Oak-Bay Corporation of Appleton, Wisconsin was acquired. Oak-Bay currently operates 13 high fashion women's shoe stores and leased departments in Illinois and Wisconsin and provides an interesting opportunity for new growth in selective U.S. markets.

Our future objectives will be obtained through a continued emphasis on people, service and quality, supported by capital expenditure programmes directed to increased capacity, cost reduction and improved productivity.

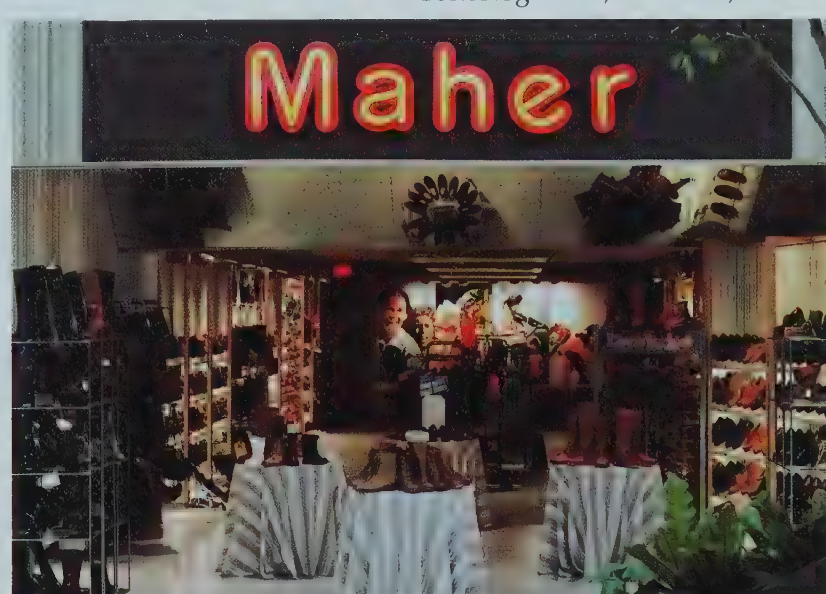
We believe that with our increased emphasis on opportunities in the U.S. midwest and the Canadian prairie provinces, sales of $100,000,000 are a realistic objective to be achieved within four years.

While in the new year we expect increased pressures on consumer spending, as our country wrestles with higher costs and increasing inflation, together with some uncertainty facing the supply side of the footwear industry, we have begun 1980 in a strong position and we are confident and optimistic that our progress will continue.

Thomas P. Wilson

T. P. Wilson
President
Maher Inc.

Conestoga Mall, Waterloo, Ontario



James F. Seifert
President and Chief Executive Officer
Seifert's Incorporated.
Born in 1928, Mr. Seifert graduated from the University of North Dakota, with a BS in commerce and served as an officer in the U.S. Air Force during the war. He opened his first store in 1953 and afterwards formed a partnership with his brother and together they opened some 50 better women's apparel stores in 7 midwest states in the U.S.

Business of the Company

Seifert's operate 51 medium to better women's apparel stores of approximately 3,900 square feet. Specializing in finer fashions within tastefully designed and decored stores, Seifert's are known for their service and quality of personnel. Seifert's merchandise to all ages of women, from the Young Junior through the Traditional Missy, with special targeting toward the Contemporary Woman of the eighties.

Jack Fraser's P.G. Lentine, J.B. Coutts, D.E. Bishop discuss operations with J. Arthaud of Seifert's.

Seifert's was acquired by Grafton Group Limited on August 6, 1979, thus its contribution to Grafton Group is limited in this first year. However, it would hope to substantially contribute to earnings and sales in the fiscal year 1980 and beyond.

Seifert's operate primarily in large regional shopping centres, although they do have several highly successful street stores throughout their group. Major emphasis is devoted to proper visual display of merchandise and to a continuing programme of training and education for Seifert's Fashion Consultants. Powerful and famous brands of women's high fashion apparel are featured.

Seifert's are embarked on an exciting and aggressive programme for the nineteen eighties, a programme which envisages doubling its size within 3 years, and increasing square footage by 300% within 5 years. Seventeen or more new stores are scheduled now to open in 1980, with 11 to have been opened by April 15th. Four stores will open simultaneously in Minneapolis-St. Paul, a major new market for Seifert's. Seifert's will be merchandising in 1980 from Grand Forks, North Dakota, next to the Canadian Border, all the way south to Tulsa, Oklahoma, and from the Mississippi River west to Grand Junction, Colorado.

Historically, Seifert's have achieved 5.5% to 6% net after tax return on sales, which they now project to be approximately 36 million in 1980. This will be an increase of approximately 33% over 1979. Because of its superior and dedicated management group and employee staff, Seifert's intend to be a most significant addition to the Grafton Group.

James F. Seifert

J.F. Seifert
President
Seifert's Incorporated

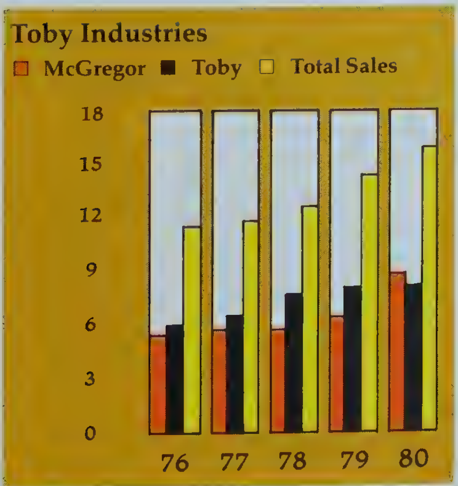
Left to right: R. Vanderlinden, B. Pacha, G. Kirk.

Left to right: L. Jones, N. Hart, L. DeSousa.

Thomas R. Young
President Toby Industries Limited.
Born in 1920, Mr. Young joined Toby in 1939, starting in the shipping department. He worked in various other departments of the Company during the next 16 years and in 1955 was appointed General Manager. In 1960, he was elected President of Toby. After the acquisition of Toby by Grafton Group in 1969, Mr. Young became a Director of Grafton Group and continued on as President of Toby, a position which he still retains.

Business of the Company

The Company has two divisions located in separate facilities in Toronto. The Toby Division manufactures comforters, bedspreads, cushions and other related homefurnishing items while the McGregor Division produces and imports shower curtains, bath boutique products, and the Martex line of high quality fashion towels and sheet ensembles.

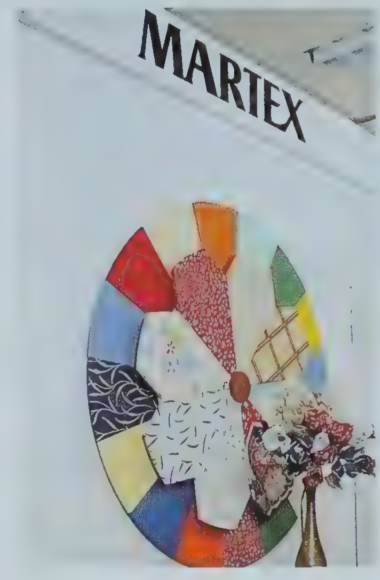


Results for last year exceeded expectations. Sales increased 17% to $16,557,000 from $14,154,000, while the net income rose 71.7% to $668,000 from $389,000. Although sales for the Toby Division were lower than expected in the fourth quarter, net income remained comparable to the previous year. Sales and profits for the McGregor Division increased dramatically, with shower curtains and bath boutique products continuing to dominate the market. Added to this, was the gratifying acceptance of the Martex line of fashionable towels and sheets.

Inventories were higher than historical trends, but this was due to the lengthy lead times in ordering imported merchandise including the large volume of Martex inventory which must be carried to stock the broad range of towels and sheets, in relation to the anticipated acceleration of future sales. The outlook for the upcoming year is for a continuation of growth in sales and profit margins along with more effective control of inventories. Order backlogs would indicate a strong first half, which is somewhat surprising, as related to economic forecasts, consumer attitudes and department store inventory psychology.

Thomas R. Young

T. R. Young
President
Toby Industries Limited



Fine quality towels and bedding.

Left to right:
A.M. Pearson, R.A. Martin.

McGregor Division Showroom
770 Lawrence Ave. W., Toronto.

George A. Reynolds
Vice President, Finance, Grafton Group Limited.
Born in 1929, Mr. Reynolds articled with the accounting firm of Thorne Riddell & Co., becoming a Chartered Accountant in 1957 and joined Grafton's Limited in 1963 as Controller. Mr. Reynolds was appointed Secretary of Grafton Group in 1967, Treasurer in 1968, Vice President, Finance in 1971 and a Director in 1972.

BALANCE SHEET

Cash and Bank Deposit Receipts

Bank deposit receipts of $7,391,000 were invested on a short term basis while the balance of the account is comprised of cash in transit from stores and operating funds. The decrease in cash from the prior year is due to large purchases of marketable securities.

Marketable securities

The major purchase during the year was a floating rate preference share issue of a large Canadian industrial company from a Canadian Chartered Bank. The $25,000,000 purchase was made on August 1, 1979 and may be sold to or called by the Bank on three months' notice. The current market prices of all the preference share investments are below cost, while market prices for the common shares are substantially above cost. One U.S. company in which we have a significant position is in voluntary liquidation which should result in an ultimate capital gain of approximately $1,300,000 after tax. The current yield on the preference shares is 8.3%, 5.9% on the common shares and 8.0% overall, based on cost. It is not the Company's intention to expand the size of the portfolio to any great extent in the coming year.

Accounts receivable

The homefurnishings division receivables were $3,023,000 with a significant slow down in payments from major department stores evident. Seifert's, our U.S. retail subsidiary, sell a high proportion of their merchandise through their own credit plan which accounts for a large proportion of the increase in the account. Amounts due under licensee agreements and bank credit card purchases in transit make up the balance. Adequate provisions for possible bad debts has been made and there are no loans to directors or officers of the Company or its subsidiaries.

Inventories

At the year end, retail inventories were $40,082,000, an increase of 40% over last year. Of this increase 16% was from corporate acquisitions and 11% from new locations. The balance of the increase resulted mainly from a shortfall in licensed Woolco department sales from projections. We believe the inventories are realistically valued and should be sold without significant negative impact on future earnings. The increase in the homefurnishings inventory reflects the greater depth of the Martex line being carried and early delivery of materials for major promotions immediately after the year end. As in 1975, acquisitions during the course of the year distort the inventory turnover which was 5.3 turns compared with 6.0 for last year.

Financial Officers
Left to right: C.M. Frejlich, J.R. Gillies, D.F. Gerrish, B.A. Renihan, K.S. Greeniaus, S. Lofsky.

Information Services
Left to right: P. Wong, W.J. Smith, C. Murdock, C. Hansen.

Investments

Forsyth Trading Company Limited, 33⅓% owned

Pierre Cardin, Forsyth and Johnny Carson are some of the well known shirt and furnishing items manufactured or imported by Forsyth. While sales increased by 24% during the year, to $62,000,000, increasing production costs, delays by retailers in accepting merchandise and high financing costs, resulted in a disappointing profit position when related to the sales increase and to past years' performances. High inventory at the end of the year is of concern and the profit outlook for the current year is dependent on management's ability to reduce the inventory rapidly in the current economic environment. Nevertheless, our investment in Forsyth has been a rewarding one and its management is to be complimented on achieving a compound sales increase of 22% over the past five years. Since our investment, the equity income contribution to our earnings has been $3,720,000 and 66% of our investment of $1,000,000 has been returned in cash.

George Richards Kingsize Clothes Limited

Sales for the year increased by 21.5% and net income was 20.3% higher. Stores were opened in Winnipeg, Halifax and Windsor bringing the chain up to 16 stores. The inventories were 21% higher than last year, with new stores accounting for all the increase, and the company is well positioned for future expansion. Equity income to Grafton Group, while positive last year, has been relatively insignificant to date due to our rapid write-off of goodwill.

Condensed, Consolidated Financial Statements of Equity Investments

BALANCE SHEET

	December 31, 1979	1978	1977
Current assets	$35,422,000	$23,271,000	$19,144,000
Current liabilities	22,196,000	12,572,000	10,135,000
Working capital	13,226,000	10,699,000	9,009,000
Fixed assets, net	2,302,000	2,107,000	2,016,000
Other assets, net of liabilities	6,000	40,000	234,000
Net assets	$15,534,000	$12,846,000	$11,259,000
Represented by			
Capital stock	$ 1,104,000	$ 1,104,000	$ 2,514,000
Retained earnings	14,430,000	11,742,000	8,745,000
	$15,534,000	$12,846,000	$11,259,000

STATEMENT OF INCOME

	Year ended December 31, 1979	1978	1977
Sales (after eliminating inter-company sales)	$62,823,000	$50,321,000	$50,031,000
Income before taxes	4,646,000	5,116,000	4,518,000
Income taxes	1,958,000	2,121,000	1,879,000
Net income for the year	$ 2,688,000	$ 2,995,000	$ 2,639,000

Grafton Group Limited's approximate interest in the above figures is as follows:

	Amount	%	Amount	%	Amount	%
Net income (after goodwill)	$ 823,000	31	$ 878,000	29	$ 777,000	29
Book value	7,005,000		6,182,000		5,865,000	
Less unamortized goodwill	1,364,000		1,566,000		1,768,000	
Net asset value	$ 5,641,000	36	$4,616,000	36	$4,097,000	36

Financial Staff
Left to right: P. Neill, S. Lofsky, J. Lau, B. Renihan, C. Frejlich, J. Kennedy, D. Barnard.

Oil and gas investment

During the year the Company and its U.S. subsidiary advanced $2,000,000 to a trustee under the terms of our agreement to finance oil and gas exploration and development in Canada and the United States. Of this amount, approximately $1,045,000 was actually expended during the year. In Canada, 11 wells were drilled in Alberta. Of these, 1 is a producing oil well, 8 are potential gas wells and 2 were dry wells. The Company's future share of the pre-tax income from these wells is estimated at $1,450,000. In the United States, 15 wells were drilled which resulted in 1 producing oil well,1 producing gas well, 6 potential gas wells (3 of the potential wells will come on stream early in the new year) and 7 dry wells. The Company's future share of the pre-tax income from these wells is estimated at $1,000,000. Exploration and development activities are to be increased during the coming year, while a modest cash flow basis is being established. It is the Company's intention to continue investing in the energy field through this vehicle.

Receivable from trustee

$988,000 is the amount receivable from the Trustees of the Grafton Group Employee Stock Purchase Plan. The Plan was established to enable store managers and other senior employees to purchase shares of the Company and to pay for them at no interest over a 10 year period. The Plan was not made available to any Directors of the Company and there are currently about 300 employees in the plan. The amount receivable from the Trustees will be reduced as employee payments are made.

Fixed assets

Of the $9,946,000 increase in fixed assets, $6,538,000 was spent on new stores, the renovation of existing stores and improvements to the homefurnishings division and head office equipment and facilities. Fixed assets purchased by corporate acquisitions amounted to $4,504,000 while fully depreciated fixed assets written-off were $1,096,000. Depreciation charged against income was $2,994,000, an increase of 49% over last year's figure of $2,007,000. The net outlay for fixed assets after depreciation for the year was $6,952,000 and $1,129,000 last year.

Goodwill

Goodwill in respect to Maher, George Richards, Seifert's and Oak-Bay is being amortized on a straight line basis over varying periods of time from 10 to 40 years depending on the circumstances. During the year, directly and indirectly, $532,000 was amortized and since the dates of acquisition $1,525,000 has been charged against income.

Accounts payable and accrued liabilities

Trade accounts payable amounted to $21,522,000 while accrued liabilities were $10,088,000. The increase in trade accounts payable reflects the higher inventory positions and a change in the Company's attitude to cash discounts which have not increased in keeping with the cost of money.

Income taxes

The large increase in this amount was due to timing differences and the increase in income.

Long term debt

The increase was due to the funding of the acquisitions of Seifert's and Oak-Bay plus the assumption of their long term debt. The long term debt related to the acquisitions was arranged through Canadian Chartered Banks, in U.S. funds. The loans may be repaid at any time until February 6, 1982 when they may be converted, at the Company's option, to fixed term loans with quarterly payments which would mature in 1990. The $15,000,000, 10.5% sinking fund debentures issued in 1977, when they were rated a B++, have recently been upgraded and given an A rating by Canadian Bond Rating Service, based on the Company's progress since that date. Subsequent to the year end, $250,000 of the 6¾% Maher Inc. sinking fund debentures Series A were purchased.

Grafton Group Data Centre.

Obligations under capital leases

Capital leases can arise where the tenant has a major effect on the economic life or viability of a location whether through the term of the lease or value of the lease to the value of the overall property. This general criteria is met by several downtown locations of Seifert's in the United States. It is not met by the size of the leased premises or the term of the lease in shopping centre locations where our stores are located.

Fixtures and equipment are purchased by the Company and not leased, consequently there are no capital leases in this regard.

A careful review of the lease commitments by management indicates that the Seifert's leases are the only capital leases as currently defined.

Deferred Income Taxes

Deferred income taxes may relate to different assets, occur for varying reasons and are segregated on the balance sheet with regard to the nature of the asset involved. The deferred income taxes item under the current asset section of the balance sheet arose through inventory valuations not recognized for income tax purposes. Long term deferred tax liability was created by timing differences between depreciation expensed through the statement of income and that allowable for tax purposes and the oil and gas investment tax credits, both non-current items.

Shareholders' equity

Capital stock

On June 1, 1979, the Company reorganized its capital structure into three classes of shares, all of no par value. The shares outstanding at the end of the year were:

624,234 Preference shares, Series A
4,997,072 Class A shares
1,249,268 Common shares.

The Company must use its best efforts to purchase 4,500 preference shares on the open market in each quarter of the calendar year at a price not to exceed the redemption price. Subsequent to the year end, the Company has fulfilled its obligation for the quarter ended March 31, 1980.

Any excess between the paid in capital value and cost of redemption will reduce retained earnings in future years. The total maximum value that can be assigned to the preference shares, on redemption, is $23,424,000.

As the shares are all no par value, no value has been assigned to each class. In order to determine the cost value for Capital Gains Tax purposes, of the three new classes of shares the following calculation is required:

	EXAMPLES 1	2	3
Cost base of old common share	$ 13.33	$ 20.00	$ 30.00
Multiply cost per share by 5	$ 66.65	$100.00	$150.00
Multiply by 18.92%	$ 12.61	$ 18.92	$ 28.38
Cost base for a preference share	$ 12.61	$ 18.92	$ 28.38
	$ 66.65	$100.00	$150.00
Deduct preference share cost base from total of the cost of the old common share × 5	−12.61	−18.92	−28.38
	$ 54.04	$ 81.08	$121.62
Cost base per class A and common share	$ 5.40	$ 8.11	$ 12.16

Retained earnings

This account increased 31.5% to $61,982,000. As the preference shares are purchased for cancellation, the Directors of the Company will determine the value for the preference shares by which the paid in capital of the Company will be reduced.

The dividend rate on the preference share is $3.00 per annum, payable quarterly. The Class A shares receive the next 10¢ of dividends and after the common shares receive 10¢ per share, participate equally with the common shares.

Dividends paid were as follows:

	$ Paid
Preference Shares	1.50
Class A shares	.20
New common shares	.20
Old common shares	.38
Total	$3,373,000.00
Per old common share	$1.08
Annualized rate	$1.40

STATEMENT OF INCOME

Sales increased by 23.9% to $240,694,000 from $194,255,000. Retail sales rose by 24.5% of which 10.4% was acquisitions, 7.5% from new locations and 6.6% from increased productivity. In homefurnishings, McGregor Division sales were up 46.7% while Toby Division sales declined 2.2% (all in the fourth quarter).

Expenses other than rentals and non-operating expenses, increased by 25.4% in dollars to 77.6% of sales from 76.6%. This increase is attributable to lower gross profit margins. Rent expense was 7.9% of sales, a decrease from 8.4% of the year before and is the result of the maturing of more locations and lower rentals experienced by our U.S. subsidiaries. Operating income was 14.5% compared with 15% for last year.

Interest income declined as the company changed its excess cash position from debt securities to after tax dividend producing investments. Equity income is a conservative assessment of the Company's share of earnings from Forsyth and George Richards.

Income before taxes increased by 17.1% to $31,815,000 from $27,164,000. This represents 13.2% of sales compared with 14% for last year.

The apparent income tax rate dropped to 42.5% from 44.5% due to increases in investment income and inventory tax credits. Earnings per share have been restated to provide for preference share dividends of $3.00 per share or $1,874,000. The earnings per share on the old common shares were $4.82 for last year and would have been $5.83 for this year if no capital reorganization had taken place.

SUBSIDIARIES — CANADIAN

Grafton-Fraser Inc. — 100% owned

Sales were 12.9% higher at $156,835,000 compared with $138,870,000 for last year. While net income increased by 5.7% to $11,586,000 from $10,964,000, it declined as a percentage of sales from 7.9% to 7.4%. Major factors influencing net income were a deterioration of maintained margin due to overbuying and a more competitive market place which required higher markdowns offset in part by continued excellent control of expenses and a continuing improvement in our inventory loss experience. Inventories increased to $25,635,000 from $20,237,000 or 26.7% due to new stores and heavier than desirable inventory levels in the leased departments. This resulted in a reduction in stock turns to 6.1 from 6.9. On a store for store basis, company store inventories were 3% higher, while leased department inventories increased 29%.

Maher Inc. — 100% of common shares owned, 60¢ preference shares listed on the Toronto Stock Exchange.

Sales for the year were $48,603,000 as compared with $41,231,000, an increase of 17.9% while net income rose by 46% to $2,361,000 from $1,612,000, both after provision for preference share dividends. A significant increase in sales per square foot, no store closing costs and tight control over expenses were major factors in the fine profit increase. Year end inventory was $10,090,000, an increase of 19% from $8,472,000 and was less than the sales increase on a store for store basis. Inventory turns decreased marginally to 4.8 from 4.9.

Toby Industries Limited — 100% owned

Sales increased by 17% to $16,557,000 from $14,154,000. Net income was up 71.7% to $668,000 from $389,000. While earnings from the Toby Division were relatively flat due to a decrease in fourth quarter sales, the McGregor Division sales were consistently strong throughout the year and the net income contribution much improved. The added costs associated with the introduction of the Martex line of towels and bedding reduced profits somewhat and was mainly responsible for the inventory increase to $4,923,000 from $3,874,000 or 27%. Inventory turns were 3.4 compared with 3.7 for last year.

Grafton Realty Company, Limited — 100% owned

There has been no change in this company's operations and due to its size the figures have been consolidated in the summary of financial data with those of Grafton Group.

SUBSIDIARIES — U.S.

Seifert's Incorporated — 100% owned

Sales since the date of acquisition, August 6, 1979, were $17,500,000 an increase of 28% over those of the same period last year. Net income for the period, after acquisition financing costs and goodwill write-off was $539,000. Based on annual sales the inventory stock turned 9.5 times. Customer accounts receivable amount to $3,996,000 and are the result of an extensive campaign whereby 50% of sales are made through the company's charge account plan. Cash and bank deposit receipts were $5,232,000 and the current ratio 2.8:1.

Oak-Bay Corporation – 100% owned

Oak-Bay is a 13 store chain selling ladies shoes which was acquired on December 28, 1979 with an effective date of October 31, 1979. Its results have been consolidated for the two months.

Summary of Financial Data by Corporate Division

	Sales								
	1980			1979			1978		
	Amount 000's	% of Total	% Increase	Amount 000's	% of Total	% Increase	Amount 000's	% of Total	% Increase
Apparel									
Grafton-Fraser Inc.									
Stores	$ 53,135	22.1	23.0	$ 43,183	22.2	18.5	$ 36,456	21.5	13.3
Licensed Woolco Departments	103,700	43.1	8.4	95,687	49.3	10.7	86,460	50.9	5.4
	156,835	65.2	12.9	138,870	71.5	13.0	122,916	72.4	9.8
Seifert's Incorporated (5 months)	17,500	7.2							
	174,335	72.4	25.5	138,870	71.5	13.0	122,916	72.4	9.8
Footwear									
Maher Inc.	48,603	20.2	17.9	41,231	21.2	20.7	34,165	20.1	8.3
Oak-Bay Corporation (2 months)	1,199	.5							
	49,802	20.7	20.8	41,231	21.2	20.7	34,165	20.1	8.3
Toby Industries Limited	16,557	6.9	17.0	14,154	7.3	12.3	12,602	7.5	9.6
Total Sales	$240,694	100.0	23.9	$194,255	100.0	14.5	$169,683	100.0	9.5

	Net Income								
	1980			1979			1978		
	Amount 000's	% of Total	% Increase	Amount 000's	% of Total	% Increase	Amount 000's	% of Total	% Increase
Grafton-Fraser Inc.	$ 11,586	63.6	5.7	$ 10,964	73.1	29.0	$ 8,497	77.2	20.9
Maher Inc.	2,361	13.0	46.5	1,612	10.8	69.9	949	8.6	43.1
Toby Industries Limited	668	3.7	71.7	389	2.6	(2.3)	398	3.6	82.6
Grafton Group Limited (net of consolidation adjustments	3,028	16.6	49.3	2,028	13.5	73.6	1,168	10.6	20.8
Canadian income	17,643	96.9	17.7	14,993	100.0	36.2	11,012	100.0	24.2
Seifert's Incorporated (after acquisition costs)	539	3.0							
Oak-Bay Corporation (after acquisition costs)	28	.1							
United States income	567	3.1							
Total before extraordinary item	$18,210	100.0	21.5	$14,993	100.0	36.2	$ 11,012	100.0	24.2

	Gross Assets					
	1980		1979		1978	
	Amount 000's	% of Total	Amount 000's	% of Total	Amount 000's	% of Total
Grafton-Fraser Inc.	$ 59,232	34.8	$ 43,516	41.8	$ 44,731	52.3
Maher Inc.	17,302	10.2	14,988	14.4	13,916	16.3
Toby Industries Limited	9,673	5.7	8,286	8.0	7,563	8.8
Grafton Group Limited (net of consolidation adjustments)	49,040	28.8	37,265	35.8	19,380	22.6
Canadian assets	135,247	79.5	104,055	100.0	85,590	100.0
Seifert's Incorporated (including goodwill)	32,195	18.9				
Oak-Bay Corporation (including goodwill)	2,636	1.6				
United States assets	34,831	20.5				
Total Gross Assets	$170,078	100.0	$104,055	100.0	$ 85,590	100.0

Grafton Group Limited

INCOME

	Year ended January 31, 1980	1979
Sales		
Retail	**$224,137,000**	$180,101,000
Homefurnishings	**16,557,000**	14,154,000
	240,694,000	194,255,000
Cost of sales and expenses other than undernoted	**186,727,000**	148,881,000
Rental and licence expense	**18,997,000**	16,241,000
	205,724,000	165,122,000
Income from operations before the following	**34,970,000**	29,133,000
Interest income (net)	**390,000**	558,000
Investment income	**2,101,000**	549,000
Equity income	**823,000**	878,000
	3,314,000	1,985,000
Income before taking into account the undernoted items	**38,284,000**	31,118,000
Depreciation	**2,994,000**	2,007,000
Interest on long term debt	**3,138,000**	1,805,000
Amortization of goodwill	**299,000**	142,000
Foreign exchange loss	**38,000**	
	6,469,000	3,954,000
Income before income taxes and minority shareholders' interest	**31,815,000**	27,164,000
Income taxes	**13,511,000**	12,077,000
Income before minority shareholders' interest	**18,304,000**	15,087,000
Preference share dividends paid to minority shareholders of Maher Inc.	**94,000**	94,000
NET INCOME FOR THE YEAR	**$ 18,210,000**	$ 14,993,000
EARNINGS PER CLASS A AND COMMON SHARE (note 8) (after providing for annualized dividends on preference shares)	**$2.61**	$2.10

RETAINED EARNINGS

	Year ended January 31, 1980	1979
BALANCE AT BEGINNING OF YEAR	**$ 47,145,000**	$ 35,993,000
Net income for the year	**18,210,000**	14,993,000
	65,355,000	50,986,000
Dividends Paid		
Preference shares, Series A (1980, $1.50 per share; 1979, nil)	**937,000**	
Class A shares (1980, 20¢ per share; 1979, nil)	**995,000**	
Common shares – new (1980, 20¢ per share; 1979, nil)	**254,000**	
Common shares – old (1980, 38¢ per share; 1979, 76¢ per share)	**1,187,000**	2,279,000
Common shares - special from capital surplus (1979, 50¢ per share)		1,562,000
	3,373,000	3,841,000
BALANCE AT END OF YEAR	**$ 61,982,000**	$ 47,145,000

Consolidated Balance Sheet as at January 31, 1980

Grafton Group Limited
(Incorporated under the laws of Ontario)

ASSETS	1980	1979
CURRENT ASSETS		
Cash and bank deposit receipts	$ 24,530,000	$ 30,638,000
Marketable securities, at lower of cost and market (market value, $36,738,000; 1979, $10,161,000)	35,568,000	8,629,000
Accounts receivable	11,398,000	6,257,000
Inventories (note 3)	45,005,000	32,583,000
Deposits and prepaid expenses	694,000	669,000
Deferred income taxes	1,230,000	
	118,425,000	78,776,000
INVESTMENTS (note 4)	10,427,000	6,477,000
FIXED ASSETS (note 5)	21,500,000	13,452,000
UNAMORTIZED FINANCING COSTS	314,000	345,000
GOODWILL, less amortization	19,412,000	5,005,000
	$170,078,000	$104,055,000

LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$ 31,610,000	$ 18,208,000
Income and other taxes payable	16,674,000	7,971,000
Current portion of long term debt	291,000	
Current portion of obligations under capital leases	91,000	
	48,666,000	26,179,000
LONG TERM DEBT (note 6)	41,853,000	15,900,000
OBLIGATIONS UNDER CAPITAL LEASES (note 9)	2,590,000	
DEFERRED INCOME TAXES	976,000	806,000
PREFERENCE SHARES HELD BY MINORITY SHAREHOLDERS of Maher Inc.	1,413,000	1,413,000
SHAREHOLDERS' EQUITY		
CAPITAL STOCK (note 7)	12,598,000	12,612,000
RETAINED EARNINGS	61,982,000	47,145,000
	74,580,000	59,757,000
	$170,078,000	$104,055,000

Operating lease commitments (note 9)

Approved by the Board

DAVID B. WELDON, *Director*

G.R. CHATER, *Director and President*

Grafton Group Limited	Year ended January 31, 1980	1979
WORKING CAPITAL DERIVED FROM		
Operations		
Net income for the year	**$18,210,000**	$14,993,000
Items not involving working capital		
Depreciation	**2,994,000**	2,007,000
Deferred income taxes	**323,000**	273,000
Amortization	**330,000**	173,000
Equity income	**(823,000)**	(878,000)
Foreign exchange loss	**38,000**	
	21,072,000	16,568,000
Increase in non-current portion of long term debt	**24,688,000**	
Increase in non-current portion of obligations under capital leases	**479,000**	
Sale of fixed assets		71,000
Redemption of preference shares of Forsyth Trading Company Limited		333,000
Issue of common shares upon conversion of 7¼% convertible debentures		4,962,000
Other		7,000
	46,239,000	21,941,000
WORKING CAPITAL APPLIED TO		
Additions to fixed assets	**6,538,000**	3,136,000
Dividends	**3,373,000**	3,841,000
Redemption of preference shares	**14,000**	
Reduction in non-current portion of long term debt		5,117,000
Receivable from trustee	**988,000**	
Investment in oil and gas properties	**2,000,000**	
Acquisition of shares of subsidiary companies less their working capital at dates of acquisition of $8,502,000	**16,153,000**	
Acquisition of 50% equity in Barcley-Lanes Shoes less its working capital at date of acquisition of $116,000		119,000
Other	**11,000**	
	29,077,000	12,213,000
INCREASE IN WORKING CAPITAL	**17,162,000**	9,728,000
WORKING CAPITAL AT BEGINNING OF YEAR	**52,597,000**	42,869,000
WORKING CAPITAL AT END OF YEAR	**$69,759,000**	$52,597,000

	1980	1979
COMPONENTS OF INCREASE IN WORKING CAPITAL		
INCREASE (DECREASE) IN CURRENT ASSETS		
Cash and bank deposit receipts	**$ (6,108,000)**	$ 5,429,000
Marketable securities	**26,939,000**	6,378,000
Accounts receivable	**5,141,000**	1,058,000
Inventories	**12,422,000**	3,654,000
Deposits and prepaid expenses	**25,000**	404,000
Deferred income taxes	**1,230,000**	
	39,649,000	16,923,000
INCREASE (DECREASE) IN CURRENT LIABILITIES		
Accounts payable and accrued liabilities	**13,402,000**	2,342,000
Income and other taxes payable	**8,703,000**	4,853,000
Current portion of long term debt	**291,000**	
Current portion of obligations under capital leases	**91,000**	
	22,487,000	7,195,000
INCREASE IN WORKING CAPITAL	**$17,162,000**	$ 9,728,000

Grafton Group Limited
Year ended January 31, 1980

1. SUMMARY OF ACCOUNTING POLICIES

(a) Principles of Consolidation

The consolidated financial statements include the accounts of all subsidiary companies since dates of acquisition. The major operating subsidiaries are as follows:

	Fiscal Year of Acquisition	Accounting Year End
Grafton-Fraser Inc.	1968	January 2, 1980
Toby Industries Limited	1970	December 31, 1979
Grafton Realty Company, Limited	1972	December 31, 1979
Maher Inc.	1975	January 5, 1980
Seifert's Incorporated	1980	December 31, 1979
Oak-Bay Corporation	1980	December 31, 1979

(b) Investments

The consolidated financial statements include, on an equity accounting basis, all of the companies in which the Company has a significant influence. The operating companies accounted for on this basis are as follows:

	Fiscal Year of Acquisition	Accounting Year End	Share of ownership
Forsyth Trading Company Limited	1974	December 31, 1979	33⅓%
George Richards Kingsize Clothes Limited	1978	December 31, 1979	50%

(c) Inventories

The inventories are valued on the following basis:

Retail inventory — lower of cost and net realizable value less normal profit margin.

Homefurnishings inventory

Raw materials — lower of cost and replacement cost.

Work in process and finished goods — lower of cost and net realizable value.

(d) Fixed Assets

Depreciation is provided as follows:

Buildings	5% diminishing balance
Equipment and fixtures	20% diminishing balance and 10% straight-line
Leaseholds	term of lease or estimated useful life whichever is shorter, straight-line

A subsidiary company, located in the United States, leases certain property under capital leases as defined by the Canadian Institute of Chartered Accountants. These leases are capitalized based on the lower of fair market value and the present value of minimum future lease payments (excluding executory costs) and are recorded as buildings and obligations under capital leases. Buildings under capital leases are depreciated over the terms of the leases on a straight-line basis and rental payments (excluding executory costs) are reflected as interest expense and as reductions of obligations under capital leases.

(e) Goodwill

Goodwill, which represents the excess of cost over assigned values of net assets acquired of subsidiary companies, is being amortized in accordance with the requirements of the Canadian Institute of Chartered Accountants on a straight-line basis over terms varying from ten to forty years. Accumulated amortization to January 31, 1980 is $938,000.

(f) Translation of Foreign Currencies

The accounts of the subsidiary companies located in the United States and the parent company's long term bank loan payable in United States funds have been translated to Canadian currency as follows:

Assets and liabilities — at exchange rates in effect on the balance sheet date of the United States subsidiaries.

Long term debt owing by the parent company — at exchange rates in effect on the balance sheet date.

Items included in net income at average exchange rates since the dates of acquisition except depreciation and amortization which are translated at exchange rates in effect on the balance sheet dates.

Unrealized exchange gains and losses are recorded in income as incurred.

(g) Income Taxes

The Company charges earnings with income taxes currently payable and also with income taxes deferred by claiming certain costs for income tax purposes in amounts differing from the related costs charged to income. The accumulated total of such income tax deferments is reflected in the consolidated balance sheet as deferred income taxes.

(h) Financing Costs

Costs, if any, of issuing long term debt are deferred in the year incurred and amortized against income over the term of the applicable issue.

(i) Pension Costs

Current service pension costs are charged to operations annually.

2. ACQUISITIONS

The Company acquired all of the shares of Seifert's Incorporated (a retailing company specializing in women's apparel) and Oak-Bay Corporation (a retailing company specializing in women's shoes) which are located in the United States, effective August 1, 1979 and October 31, 1979 respectively. These acquisitions have been accounted for on the purchase method with the results of operations included in these financial statements from the dates of acquisition. The acquisition equation is as follows:

Net Assets acquired, at assigned values		
Current Assets	**$13,961,000**	
Fixed Assets	**4,504,000**	
Other Assets	**204,000**	$18,669,000
Current Liabilities	**5,459,000**	
Long Term Debt	**1,265,000**	
Obligations Under Capital Leases	**2,111,000**	8,835,000
		9,834,000
Goodwill		14,821,000
		$24,655,000
Consideration		
Term bank loans		$24,101,000
Notes payable to vendors		474,000
Cash		80,000
		$24,655,000

One of the above acquisitions provides for additional consideration to be paid to the vendor should future profits exceed specified amounts. This contingent consideration will be recorded when and if it becomes payable.

3. INVENTORIES

	1980	1979
Retail		
Apparel	$28,465,000	$20,237,000
Footwear	11,617,000	8,472,000
	40,082,000	28,709,000
Homefurnishings		
Raw materials	1,658,000	1,443,000
Work in process	281,000	248,000
Finished goods	2,984,000	2,183,000
	4,923,000	3,874,000
	$45,005,000	$32,583,000

4. INVESTMENTS

	1980	1979
Forsyth Trading Company Limited		
Redeemable preference shares, at cost	$ 1,000,000	$ 1,000,000
Less redeemed	666,000	666,000
	334,000	334,000
Common shares, 33⅓% interest, at equity	3,733,000	3,033,000
	4,067,000	3,367,000
George Richards Kingsize Clothes Limited		
Common shares, 50% interest, at equity	2,938,000	2,815,000
Oil and gas properties	2,000,000	
Receivable from trustee	988,000	
Other	161,000	75,000
Listed marketable securities at cost (market value 1980, $728,000; 1979, $524,000)	273,000	220,000
	$10,427,000	$ 6,477,000

The investment in George Richards Kingsize Clothes Limited is being accounted for on the equity method with the goodwill acquired of $1,911,000 being amortized to equity income over ten years from 1978 on a straight-line basis. The purchase agreement contains an option whereby Grafton-Fraser Inc. may purchase or may be required to purchase the remaining 50% of the shares of George Richards Kingsize Clothes Limited at a price to be determined by an agreed upon formula. This option is exercisable after April 28, 1982.

In the year, the company entered into an agreement to finance exploration and development activities for oil and gas properties. This agreement is for five years subject to termination on one year's notice by the Company. The Company has advanced $2,000,000, of which $1,045,000 has been expended, under the terms of this agreement and the future maximum required funding contribution in any one year is limited to $3,000,000. As at January 31, 1980, all exploration and development activities are in the preliminary stages and all costs and revenues related to these activities have been deferred.

During the year, certain subsidiary companies advanced funds to a trustee corporation under the terms of an employee stock purchase plan. The funds are advanced to the trustee, non-interest bearing, to enable the trustee to purchase shares of Grafton Group Limited which shares are then available for purchase by employees other than directors of Grafton Group Limited. The shares must be paid for by the employees at a minimum of 10% per year. Advances made by the subsidiary companies will be in the form of redeemable preference shares of the trustee corporation and the shares will be redeemed in amounts equivalent to employee payments.

5. FIXED ASSETS

Details of fixed asset balances are as follows:

	1980	1979
Land	**$ 1,348,000**	$ 1,348,000
Buildings under capital leases	**2,331,000**	
Buildings	**3,793,000**	3,461,000
Equipment, fixtures and leaseholds	**26,108,000**	18,825,000
	33,580,000	23,634,000
Less accumulated depreciation	**12,080,000**	10,182,000
	$21,500,000	$13,452,000

Included in accumulated depreciation of $12,080,000 above is accumulated depreciation on buildings under capital leases of $83,000.

6. LONG TERM DEBT

	1980	1979
(a) 10½% Sinking fund debentures, Series A	**$15,000,000**	$15,000,000
(b) 6¾% Sinking fund debentures, Series A	**900,000**	900,000
(c) Term bank loans — acquisitions	**24,352,000**	
(d) Term bank loans — capital improvements	**1,425,000**	
(e) Notes payable to vendors	**467,000**	
	42,144,000	15,900,000
Less principal due within one year	**291,000**	Nil
	$41,853,000	$15,900,000

(a) The 10½% sinking fund debentures, Series A, mature on June 1, 1997 and require sinking fund payments sufficient to retire $900,000 principal amount of the Series A debentures on June 1 in each of the years 1982 to 1996 inclusive. The Company has the right, when not in default, to redeem in whole or in part the issued and outstanding Series A debentures under conditions as set out in the Trust Indenture. The Company is restricted from paying cash dividends on shares if such payments exceed consolidated net income earned after January 31, 1977 plus $7,000,000. The Trust Indenture contains certain asset and earnings tests which govern the issuance of additional funded obligations.

(b) The 6¾% sinking fund debentures, Series A, maturing April 1, 1987, of Maher Inc., are secured by a first floating charge on the assets of Maher Inc. The more significant of the covenants of the trust deed restrict Maher Inc. from reducing its consolidated working capital below $1,000,000 and from paying dividends on common shares if such payments would reduce consolidated working capital (which was $7,303,000 at January, 1980) below $1,250,000. At January 5, 1980, the Company had a sinking fund credit of $48,000. The sinking fund payment due in 1981 is $96,000. The payments required in 1981 and future years average approximately $118,000 per annum to 1987, the date of maturity.

(c) The term bank loans obtained for acquisitions by the wholly owned subsidiary companies, Grafton Group, Inc. and Maher (U.S.) Inc., are on a revolving basis and require no principal repayments prior to February 6, 1982 at which point they become due. However, the Company has the option prior to the maturity date to convert the revolving term loans to fixed term loans maturing in 1990. The fixed term loans will require equal quarterly principal repayments. The loans bear interest at a fluctuating rate which at the Company's option is determined by London Interbank offer rate or New York prime. The loans are secured by the pledge of the shares of Seifert's Incorporated and Oak-Bay Corporation. The loan agreements with the Company's United States subsidiary Grafton Group, Inc., contain certain covenants, the more significant of which concern its net worth, debt equity ratio and working capital position.

(d) The term bank loans obtained for capital improvements by Seifert's Incorporated bear interest at rates ranging from 10% to 13½% and are repayable annually at 10% of the original balance borrowed. The term bank loans are unsecured.

Principal repayments within the next five fiscal years on all long term debt of Grafton Group Limited and subsidiary companies are approximately:

1981	$ 291,000
1982	336,000
1983	3,490,000
1984	4,285,000
1985	4,249,000
	12,651,000
due beyond five years	29,493,000
	$42,144,000

The above principal repayments have been calculated assuming the company will exercise its option to convert the term bank loans to fixed term loans in February, 1982.

7. CAPITAL STOCK

Authorized

2,500,000 Preference shares (1979, nil)
20,000,000 Class A shares (1979, nil)
5,000,000 Common shares (1979, 5,250,000)

	1980	1979
Issued		
624,234 Preference shares, Series A (1979, nil) 4,997,072 Class A shares (1979, nil) 1,249,268 Common shares (1979, 3,123,169)	**$12,598,000**	$12,612,000
	$12,598,000	$12,612,000

Pursuant to a capital reorganization approved by the shareholders on May 11, 1979, and becoming effective June 1, 1979, the authorized share capital of the Company was changed from 5,250,000 no par value common shares to 2,500,000 preference shares, 20,000,000 class A shares and 5,000,000 new common shares, all without par value.

The existing issued and outstanding common shares effective June 1, 1979, were reclassified on the basis of 1 preference share, series A, 8 class A shares and 2 new common shares for each 5 existing issued common shares.

The following table illustrates the effect of the reorganization on the issued share capital of the Company.

Class of Shares	Number of Shares Outstanding Before Reorganization became effective	After Reorganization became effective
Preference shares, series A	Nil	624,634
Class A shares	Nil	4,997,072
Common shares	3,123,169	1,249,268

The Preference shares, series A, which carry a fixed cumulative dividend rate of $3 per annum, are redeemable by the Company at rates varying from $39.00 prior to June 15, 1980, to $37.50 subsequent to June 15, 1984. The Company has also committed to use its best efforts to purchase for cancellation in the open market at least 4,500 preference shares, series A on a quarterly basis, at a price not to exceed the redemption price in force at the date of purchase.

The class A shares are non-voting and are entitled to receive a 10¢ non-cumulative preferential dividend after which point the common shares are entitled to a dividend equal to 10¢ per share and thereafter, dividends will be paid equally on the class A and common shares.

The common shares are entitled to one vote per share.

During the year, the Company purchased 400 preference shares for cancellation at a cost of $14,000.

8. EARNINGS PER SHARE

Earnings per class A and common share have been calculated as though the capital reorganization described in note 7 took place on February 1, 1979. The 1979 earnings per share figures have been restated to reflect the above capital reorganization.

9. LEASE COMMITMENTS

(a) Capital Leases

Based upon all capital leases in force at their accounting year ends, the future minimum lease payments under capital leases and the present value of the minimum lease payments owing by all the Company's subsidiaries is as follows:

1981	$ 497,000
1982	509,000
1983	514,000
1984	517,000
1985	521,000
Remaining years	3,400,000
Total minimum lease payments	5,958,000
Less: Estimated executory lease costs	272,000
	5,686,000
Less: Amount representing interest at rates varying from 9.7% to 19.7%	3,005,000
Present value of minimum lease payments	$ 2,681,000

(b) Operating Leases
Based upon all operating leases and licences in force at the accounting year ends, the aggregate minimum amount that will be incurred by all the Company's subsidiaries as annual rental or licence expense is as follows:

1981	$10,275,000
1982	9,252,000
1983	7,886,000
1984	6,312,000
1985	4,604,000
Remaining years	14,169,000
	$52,498,000

The above amounts do not include percentage rents or other tenant related costs.

10. OTHER STATUTORY INFORMATION
Remuneration of directors and the senior officers of the Company (as defined by The Business Corporations Act) was $724,000 (1979, $660,000).

Auditors' Report

To the Shareholders of
Grafton Group Limited

We have examined the consolidated balance sheet of Grafton Group Limited as at January 31, 1980 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination of Grafton Group Limited and the subsidiary companies of which we are the auditors was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at January 31, 1980 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada
March 5, 1980

Thorne Riddell & Co.
Chartered Accountants

	1980	1979	1978	1977
TOTAL SALES	240,694	194,255	169,683	154,988
Retail Divisions				
Apparel				
Canada				
Stores	53,135	43,183	36,456	32,177
Licensed Woolco Departments	103,700	95,687	86,460	79,762
	156,835	138,870	122,916	111,939
United States (5 months)	17,500			
	174,335	138,870	122,916	111,939
Footwear				
Canada	48,603	41,231	34,165	31,553
United States (2 months)	1,199			
	49,802	41,231	34,165	31,553
	224,137	180,101	157,081	143,492
Homefurnishings Division	16,557	14,154	12,602	11,496
Cost of sales and expenses other than undernoted	186,727	148,881	132,338	121,903
Rentals and license expense	18,997	16,241	14,380	13,150
	205,724	165,122	146,718	135,053
Income from operations before the following	34,970	29,133	22,965	19,935
Percent to sales	14.5	15.0	13.5	12.9
Interest income (net)	390	558		
Income from investments	2,924	1,427	916	580
Income before taking into account the undernoted items	38,284	31,118	23,881	20,515
Depreciation	2,994	2,007	1,728	1,516
Interest on long term debt	3,138	1,805	1,701	1,018
Other interest (net)			83	783
Foreign exchange loss	38			
Amortization of goodwill	299	142	142	142
Provisions for write down of investments				
	6,469	3,954	3,654	3,459
Income before undernoted	31,815	27,164	20,227	17,056
Income taxes	13,511	12,077	9,121	8,093
Income before undernoted items	18,304	15,087	11,106	8,963
Minority interests	94	94	94	94
INCOME BEFORE EXTRAORDINARY ITEM	18,210	14,993	11,012	8,869
Extraordinary item			246	
NET INCOME FOR THE YEAR	18,210	14,993	11,258	8,869
Earnings per class A and common share before extraordinary item	2.61	2.10	1.46	1.12
Dividends per class A and common share (regular)	.39	.38	.335	.236
Special dividend from Capital Surplus		.25		
Dividend percentage of earnings (regular)	18.5	15.2	17.1	15.2
Total dividend percentage of earnings	18.5	25.6	17.1	15.2
Weighted average number of class A and common shares outstanding	6,246,340	6,060,304	5,748,708	5,686,256
Effective tax rate percentage	42.5	44.5	45.1	47.4
Rentals as a percentage of sales	7.9	8.4	8.6	8.5

Comparative data relating to class A and common shares has been restated to reflect the June 1, 1979 capital reorganization.

January 31

1976	1975	1974	1973	1972	1971	1970
	Omitting 000's					
139,248	104,589	71,263	59,599	48,882	42,004	36,153
28,771	21,915	19,213	16,286	14,704	13,136	12,452
69,971	56,931	46,505	38,129	29,576	24,759	19,586
98,742	78,846	65,718	54,415	44,280	37,895	32,038
98,742	78,846	65,718	54,415	44,280	37,895	32,038
29,359	15,285					
29,359	15,285					
128,101	94,131	65,718	54,415	44,280	37,895	32,038
11,147	10,458	5,545	5,184	4,602	4,109	4,115
107,981	82,810	55,798	47,708	39,790	34,396	30,482
11,541	8,390	5,984	4,943	3,951	3,353	2,468
119,522	91,200	61,782	52,651	43,741	37,749	32,950
19,726	13,389	9,481	6,948	5,141	4,255	3,203
14.2	12.8	13.3	11.7	10.5	10.1	8.9
611	541					27
20,337	13,930	9,481	6,948	5,141	4,255	3,230
1,320	945	567	393	267	196	161
1,144	764	172	112			
676	781	275	101	119	356	360
142	71					
	359	87				
3,282	2,920	1,101	606	386	552	521
17,055	11,010	8,380	6,342	4,755	3,703	2,709
8,427	5,763	4,310	3,067	2,445	2,009	1,461
8,628	5,247	4,070	3,275	2,310	1,694	1,248
97	67	36	42	51	56	218
8,531	5,180	4,034	3,233	2,259	1,638	1,030
8,531	5,180	4,034	3,233	2,259	1,638	1,030
1.07	.53	.35	.22	.06	(.04)	
.20	.17	.14	.11	.067	.017	
13.3	18.6	19.6	18.9	16.4	5.0	
13.3	18.6	19.6	18.9	16.4	5.0	
5,676,780	5,669,234	5,650,800	5,624,100	5,561,000	4,924,488	—
49.4	52.3	51.4	48.4	51.4	54.3	53.9
8.3	8.0	8.4	8.3	8.1	8.0	6.8

ASSETS	1980	1979	1978
CURRENT ASSETS			
Cash and bank deposit receipts	**24,530**	30,638	25,209
Marketable securities at lower of cost and market	**35,568**	8,629	2,251
Accounts receivable	**11,398**	6,257	5,199
Inventories	**45,005**	32,583	28,929
Deposits and prepaid expenses	**694**	669	265
Deferred income taxes	**1,230**		
	118,425	78,776	61,853
INVESTMENT AND OTHER RECEIVABLES	**10,427**	6,477	6,167
FIXED ASSETS, AT COST			
Land	**1,348**	1,348	1,348
Buildings	**6,124**	3,461	3,065
Equipment, fixtures and leaseholds	**26,108**	18,825	16,336
	33,580	23,634	20,749
Less accumulated depreciation	**12,080**	10,182	8,702
	21,500	13,452	12,047
UNAMORTIZED FINANCING COSTS	**314**	345	376
GOODWILL, less amortization	**19,412**	5,005	5,147
	170,078	104,055	85,590

LIABILITIES	1980	1979	1978
CURRENT LIABILITIES			
Bank advances			
Accounts payable and accrued liabilities	**31,610**	18,208	15,866
Income and other taxes payable	**16,674**	7,971	3,118
Current portion of long term debt	**291**		
Current portion of obligations under capital leases	**91**		
	48,666	26,179	18,984
LONG TERM DEBT	**41,853**	15,900	21,017
LONG TERM OBLIGATIONS UNDER CAPITAL LEASES	**2,590**		
DEFERRED INCOME TAXES	**976**	806	533
PREFERENCE SHARES HELD BY MINORITY SHAREHOLDERS	**1,413**	1,413	1,413
CAPITAL STOCK, Issued	**12,598**	12,612	7,650
CONTRIBUTED SURPLUS			
RETAINED EARNINGS	**61,982**	47,145	35,993
	74,580	59,757	43,643
	170,078	104,055	85,590
WORKING CAPITAL	**69,759**	52,597	42,869
Working capital ratio	**2.4:1**	3.0:1	3.3:1
Long term debt to equity ratio	**.56:1**	.27:1	.48:1
Accounts payable to inventory ratio	**.70:1**	.56:1	.55:1
Return on shareholders' equity (year end)	**24.4**	25.1	25.8
Inventory turnover – total	**5.4**	6.0	5.9
– retail	**5.6**	6.3	6.2

	January 31						
	1977	1976	1975	1974	1973	1972	1971
		Omitting 000's					
	10,111	8,391	3,112	2,280	2,444	2,079	14
		225	225	214	355	230	
	4,185	4,445	4,192	3,071	2,676	2,051	1,878
	27,585	24,545	23,791	11,440	8,601	6,519	5,845
	313	416	238	168	282	584	100
	42,194	38,022	31,558	17,173	14,358	11,463	7,837
	3,724	3,022	2,447	3,016	1,013	874	797
	1,348	1,348	1,348	1,390	1,390	413	
	3,025	2,930	2,722	2,754	2,949	668	
	14,739	12,902	11,814	4,803	3,979	3,759	3,178
	19,112	17,180	15,884	8,947	8,318	4,840	3,178
	7,952	6,666	5,880	3,148	2,925	2,619	1,920
	11,160	10,514	10,004	5,799	5,393	2,221	1,258
	5,289	5,431	5,573				
	62,367	56,989	49,582	25,988	20,764	14,558	9,892
			4,364				275
	11,209	13,676	8,278	5,741	6,106	4,001	3,098
	4,831	3,296	3,793	3,392	965	671	1,071
	1,152	1,202	412	107	147	740	
	17,192	18,174	16,847	9,240	7,218	5,412	4,444
	9,395	10,679	11,936	1,628	1,720		190
	476	442	355	79	73	41	37
	1,413	1,413	1,631	479	662	788	907
	7,230	7,143	7,055	7,018	6,790	6,666	4,524
	156	156	172	175	175	167	149
	26,505	18,982	11,586	7,369	4,126	1,484	(359)
	33,891	26,281	18,813	14,562	11,091	8,317	4,314
	62,367	56,989	49,582	25,988	20,764	14,558	9,892
	25,002	19,848	14,711	7,933	7,140	6,051	3,393
	2.5:1	2.1:1	1.9:1	1.9:1	2.0:1	2.1:1	1.8:1
	.28:1	.41:1	.63:1	.11:1	.16:1		.04:1
	.41:1	.56:1	.35:1	.50:1	.71:1	.61:1	.53:1
	26.2	32.4	27.5	27.7	29.1	27.2	38.0
	5.6	5.7	4.4	6.2	6.9	7.5	7.2
	5.9	5.9	4.6	6.5	7.2	7.9	7.5

Grafton Group Limited

	January 31,									
	1980	1979	1978	1977	1976	1975	1974	1973	1972	1971
	Omitting $000's									
Quarterly Statistics										
Sales										
1st Quarter	**37,129**	32,660	28,841	28,297	23,379	15,184	11,867	10,034	8,211	7,358
2nd Quarter	**49,708**	44,164	39,407	37,689	32,457	21,800	16,894	14,141	11,674	10,208
3rd Quarter	**58,511**	45,212	40,082	36,229	33,671	27,933	15,882	13,847	11,474	9,424
4th Quarter	**95,346**	72,219	61,353	52,773	49,741	39,672	26,621	21,577	17,433	15,014
Total	**240,694**	194,255	169,683	154,988	139,248	104,589	71,264	59,599	48,882	42,004
Operating Income as a percentage of Sales										
1st Quarter	**6.8**	7.7	7.8	9.0	9.8	10.4	8.3	6.9	7.0	5.5
2nd Quarter	**10.2**	10.0	9.8	9.0	11.3	10.9	10.6	10.0	10.0	9.8
3rd Quarter	**10.7**	12.1	11.5	11.0	13.2	9.7	9.0	8.3	7.3	6.8
4th Quarter	**22.2**	23.0	19.9	19.0	18.7	16.9	19.9	17.1	15.1	14.7
For year	**14.5**	15.0	13.5	12.9	14.2	12.8	13.3	11.7	10.5	10.1
Net Income before extraordinary item										
1st Quarter	**1,210**	993	832	876	718	633	434	301	189	125
2nd Quarter	**2,853**	2,320	1,776	1,449	1,576	1,131	808	651	517	378
3rd Quarter	**3,068**	2,466	1,891	1,499	1,718	804	595	502	361	200
4th Quarter	**11,079**	9,214	6,513	5,045	4,519	2,612	2,197	1,779	1,192	935
Total	**18,210**	14,993	11,012	8,869	8,531	5,180	4,034	3,233	2,259	1,638
Earnings per Class A and Common Share after giving retroactive effect to the capital reorganization of June 1, 1979										
1st Quarter	**.12**	.08	.06	.07	.04	.03	(.01)	(.03)	(.05)	(.06
2nd Quarter	**.50**	.30	.21	.16	.18	.11	.06	.03	.01	.01
3rd Quarter	**.41**	.32	.23	.16	.20	.05	.02	.01	(.01)	(.04
4th Quarter	**1.58**	1.40	.96	.73	.65	.34	.28	.21	.11	.07
	2.61	2.10	1.46	1.12	1.07	.53	.35	.22	.06	(.04
Weighted average number of shares outstanding, Class A and Common										
	6,246,340	6,060,304	5,748,708	5,686,256	5,676,780	5,669,234	5,650,800	5,624,100	5,561,000	4,924,488

JUNE 1, 1979 TO JANUARY 31, 1980 Stock Prices		Preference Shares	Class A Shares	Common Shares
High		$38.75	$17.12	$17.25
Low		$30.50	$12.00	$12.00
Volume of shares traded		189,040	370,453	162,980
Value of shares traded		$6,871,727	$5,517,166	$2,436,450
JANUARY 31, 1980				
Market price		$35.00	$15.00	$14.75
Capitalized value of the Company based on Market Value	$105,870,000			
Price earnings multiple			5.75X	5.65X
Annual dividend coverage		9.72X		
Yield		8.57%	2.67%	2.71%
Number of shareholders		807	920	886
Number of Full Time Employees	2,625			

VALUATION DAY SHARE PRICES: For capital gains purposes, some shareholders may need to know the value of their shares on Valuation Day. The December 22, 1971, Valuation Day value, as established by Revenue Canada is $12.61 for Grafton Group Limited preference shares, $5.40 for class A shares and common shares, and $7.50 for Maher Inc. preference shares.

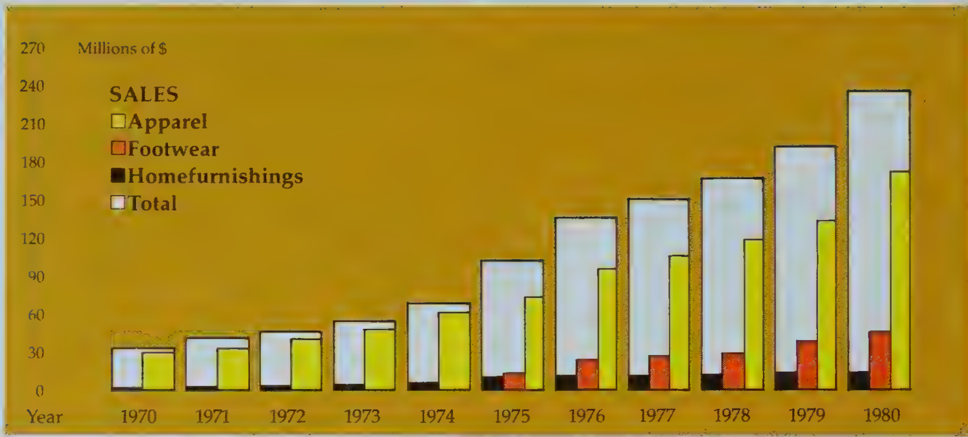
Grafton Group Limited

	January 31, 1980	1979	1978	1977	1976	1975	1974	1973	1972	1971	1970
NUMBER OF BRANCHES											
Apparel Division											
Canada											
Leased Woolco Depts.	**105**	100	93	86	79	72	67	56	47	41	33
Company Stores	**121**	96	89	80	79	72	65	54	51	46	41
	226	196	182	166	158	144	132	110	98	87	74
United States	**51**										
	277										
Footwear Division											
Canada	**195**	183	176	196	203	217					
United States	**13**										
	208										
BRANCHES OPENED OR ACQUIRED											
Apparel Division											
Canada	**30**	20	20	15	16	15	24	16	13	14	10
United States	**51**										
Footwear Division											
Canada	**17**	21	15	3	14	24					
United States	**13**										
BRANCHES CLOSED OR COMBINED											
Apparel Division	**—**	6	4	7	2	3	2	4	2	1	2
Footwear Division	**5**	14	35	10	28	17					
STORE SPACE AT YEAR END, omitting 000's											
Apparel Division											
Canada	**1,298**	1,192	1,134	1,070	1,005	912	850	718	633	579	488
Footwear Division											
Canada	**378**	369	353	351	364	398					
SALES PER SQUARE FOOT BASED ON YEAR END SPACE											
Apparel Division											
Canada											
Leased Woolco Depts.	**$124.4**	119.2	112.6	109.1	103.8	92.7	81.6	80.6	73.4	70.7	69.2
Company Stores	**$115.3**	110.8	99.6	94.9	86.9	73.5	68.6	66.5	63.9	57.4	60.7
Total Canadian Apparel	**$120.8**	116.4	108.4	104.5	98.2	86.5	77.3	75.8	69.9	65.4	65.6
Footwear Division											
Canada	**$128.6**	111.7	96.8	88.7	79.6	67.8					

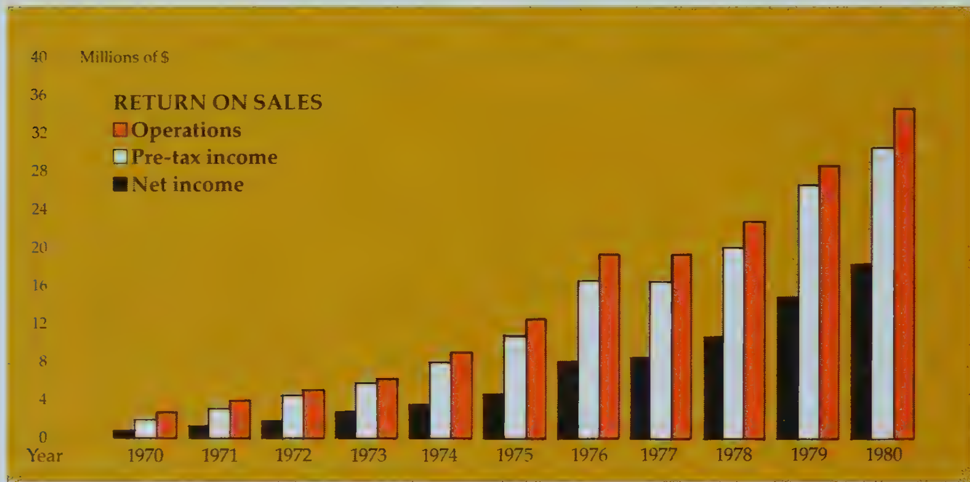
SALES BY REGION
CANADA

	APPAREL DIVISION								FOOTWEAR DIVISION			
	Leased Woolco Depts.				Company Stores							
	No. of Stores	% of Sales	No. of Stores	% of Sales	No. of Stores	% of Sales	No. of Stores	% of Sales	No. of Stores	% of Sales	No. of Stores	% of Sales
	1980		1979		1980		1979		1980		1979	
British Columbia	8	6.2	7	5.5	16	9.9	14	9.7	44	17.7	42	18.7
Alberta	9	13.2	9	13.7	13	10.9	8	9.6	10	3.6	7	3.0
Saskatchewan and Manitoba	13	13.8	11	13.4	13	8.0	6	6.8	7	2.0	4	1.7
Ontario	39	34.5	38	35.3	64	60.9	56	64.4	111	63.9	108	65.3
Quebec	26	21.7	26	21.4					8	5.2	8	4.8
Maritimes	10	10.6	9	10.7	15	10.3	12	9.5	15	7.6	14	6.5
	105	100.0	100	100.0	121	100.0	96	100.0	195	100.0	183	100.0

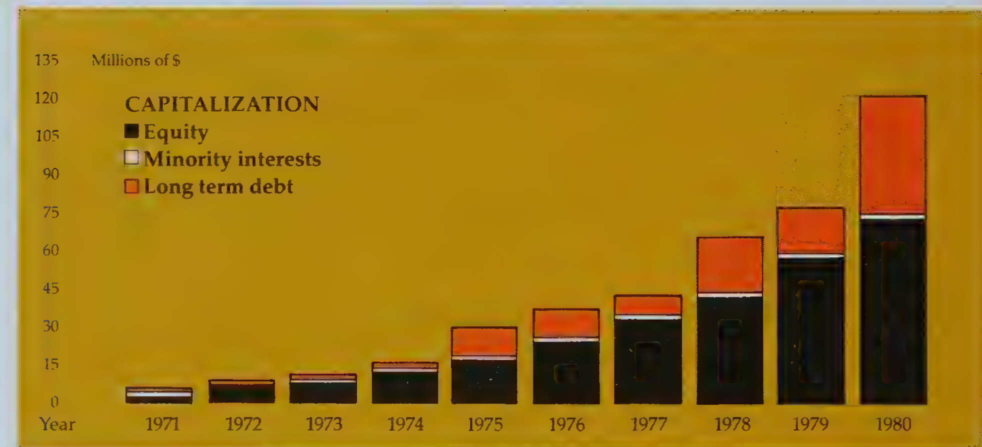
1. Sales — The sales graph, by divisions, shows that one year, 5 year and 10 year compound growth rates are 24%, 18% and 21%.



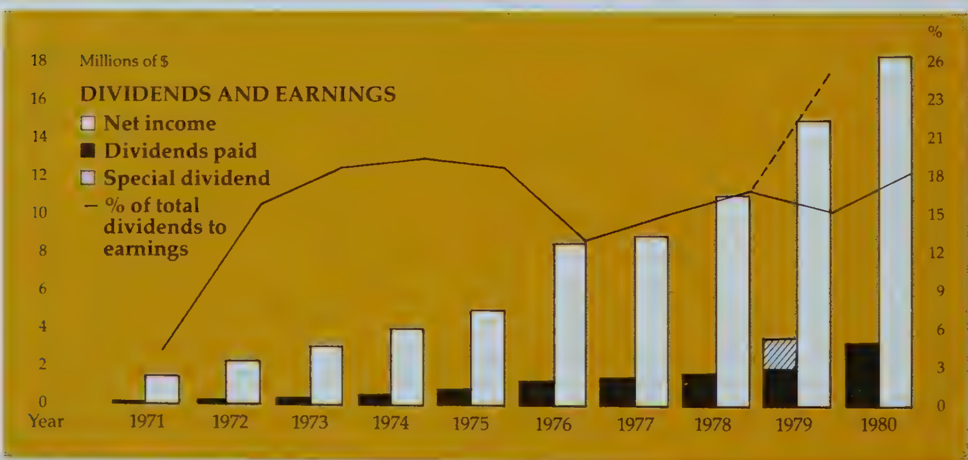
2. Operating, Pre-Tax Income and Net Income — The one year, 5 year and 10 year compound increases in net income are 21%, 29% and 33% respectively.



3. Capitalization — The graph illustrates that Shareholders' Equity has increased at a compound rate of 32% over the past five years.



4. Dividends and Earnings — The graph indicates that total dividends paid has increased at 28% compound rate over the last five years while the rate for earnings is 29%.



	Year Elected	Residence
CHARLES A. CADIEUX, *C.M., K.G.C.H.S., Retired Retail Executive*	1974	*Toronto, Ontario*
G. RICHARD CHATER, *President, the Company*	1961	*Campbellville, Ontario*
BRIG.-GEN. W. PRESTON GILBRIDE, *C.B.E., D.S.O., E.D., LL.D. Chairman, the Company*	1967	*Toronto, Ontario*
WILLIAM A. HEASLIP, *Executive Vice President, the Company*	1961	*Milton, Ontario*
WILLIAM F. JAMES, *PH.D., Consulting Geologist*	1967	*Toronto, Ontario*
JAMES W. McCUTCHEON, *Q.C., Partner, Shibley, Righton & McCutcheon Barristers and Solicitors*	1967	*Toronto, Ontario*
STEWART PHILP, *Retired President of a Subsidiary*	1967	*Hamilton, Ontario*
GEORGE A. REYNOLDS, *C.A., Vice President Finance, Secretary and Treasurer, the Company*	1972	*Thornhill, Ontario*
JOHN B. RIDLEY, *C.M., Retired Investment Dealer*	1967	*Toronto, Ontario*
SAM FOSTER ROSS, *Q.C., Partner, Ross & McBride, Barristers and Solicitors*	1967	*Dundas, Ontario*
T. EDWARD TOPPING, *Executive Vice President, the Company*	1968	*Stouffville, Ontario*
DAVID B. WELDON, *Chairman of the Board, Midland Doherty Limited, Investment Dealers*	1967	*Toronto, Ontario*
DOUGLAS C. WOOLLEY, *Q.C., Partner, Woolley, Dale & Dingwall, Barristers and Solicitors*	1961	*Milton, Ontario*
THOMAS R. YOUNG, *President, Toby Industries Limited*	1969	*Goodwood, Ontario*

CORPORATE AFFILIATION OF DIRECTORS

Mr. Cadieux *is a Director and retired Executive Vice President — F.W. Woolworth Co. Limited and a Director of several Canadian Companies.*

Mr. Chater *is a Director of Canadian General Securities, Limited, Guaranty Trust Company of Canada, Traders Group Limited and its Insurance Subsidiaries.*

Mr. Gilbride *is Chairman of Greywinds Investments Limited, and a Director of Gerling Global Insurance Group, Swiss Corporation for Canadian Investments Limited and S.B.C. Financial Limited.*

Mr. Heaslip *is a Director of Canadian General Securities, Limited.*

Dr. James *is a Director of Campbell Red Lake Mines Limited, Dome Mines Limited, Falconbridge Dominicana C. por A., Falconbridge Nickel Mines Limited, Giant Yellowknife Mines Limited, Lolor Mines Limited, Templeton Growth Fund of Canada Limited, Templeton World Fund Inc., and Director Emeritus of the Canadian Imperial Bank of Commerce. Bank of Commerce.*

Mr. McCutcheon *is a Director of Biltmore Industries Limited, Canadian General Securities, Limited, Guaranty Trust Company of Canada, Kerr Addison Mines Limited, Traders Group Limited Canadian General Insurance Group, and CAE Industries Ltd.*

Mr. Philp *is a Director of Equitrust Mortgage and Savings Company.*

Mr. Reynolds *is Secretary of Canadian General Securities, Limited.*

Mr. Ridley *is a retired Executive Vice President and Managing Director of A.E. Ames & Co. Limited.*

Mr. Ross *is President and Director of Equitrust Mortgage and Savings Company.*

Mr. Topping *is a Director of the Retail Council of Canada.*

Mr. Weldon *is a Vice President and Director of Goderich Elevators Limited, a Director of Biltmore Industries Limited, Emco Limited, Guaranty Trust Company of Canada and Silverwood Industries Limited.*

Mr. Woolley *is a Director of Griffin Products Inc., Leonard Pipeland Contractors Ltd., Koss Ltd., Russell H. Morin Products Ltd. and Reynolds and Reynolds (Canada) Ltd.*

Audit Committee

John B. Ridley	*Chairman*
G. Richard Chater	
James W. McCutcheon	
George A. Reynolds	
David B. Weldon	

Executive Committee

W. Preston Gilbride	*Chairman*
G. Richard Chater	
William A. Heaslip	
James W. McCutcheon	
Stewart Philp	
George A. Reynolds	
John B. Ridley	
David B. Weldon	

Compensation Committee

John B. Ridley	*Chairman*
G. Richard Chater	
James W. McCutcheon	

Investment Committee

John B. Ridley	*Chairman*
G. Richard Chater	
David B. Weldon	

GRAFTON GROUP LIMITED
W.P. Gilbride, *Chairman*
G.R. Chater, *President*
W.A. Heaslip, *Executive Vice President*
T.E. Topping, *Executive Vice President*
G.A. Reynolds, *C.A., Vice President, Finance, Secretary and Treasurer*

GRAFTON-FRASER INC.
G.R. Chater, *Chairman and Chief Executive Officer*
A.L. Lucas, *President*
J.B. Coutts, *Senior Vice President*
E.C. Frederick, *Senior Vice President*
G.A. Reynolds, *C.A., Senior Vice President*
W.J. Smith, *Vice President*
J.R. Walker, *Vice President*
B.A. Renihan, *C.A., Controller and Chief Financial Officer*
H.M. Sanders, *Public Relations Administrator*

MAHER INC.
T.P. Wilson, *President*
J.W. Reid, *President of a Division*
R.C. Wilson, *Senior Vice President*
J.R. Gillies, *C.A., Vice President and Treasurer*
D.F. Gerrish, *C.A., Controller*

TOBY INDUSTRIES LIMITED
T.R. Young, *President*
K.S. Greeniaus, *R.I.A., Controller*

SEIFERT'S INCORPORATED
J.F. Seifert, *President and Chief Executive Officer*
R.E. Vanderlinden, *Executive Vice President and Chief Financial Officer*
E. Meeker, *Secretary*

OAK-BAY CORPORATION
W. Boettge, *President*

TRANSFER AGENTS AND REGISTRARS
Grafton Group Limited
10½% Sinking Fund Debentures, Series A
The Royal Trust Company
Preference, Class A and Common Shares
Guaranty Trust Company of Canada
Maher Inc.
6¾% Sinking Fund Debentures, Series A
Canada Permanent Trust Company
Preference Shares
The Canada Trust Company

AUDITORS
Thorne Riddell, Toronto

PRINCIPAL BANKERS
Canada
Canadian Imperial Bank of Commerce, Toronto
Bank of Nova Scotia, Toronto
United States
The Royal Bank of Canada
Merchants National Bank, Cedar Rapids, Iowa

STOCK EXCHANGE LISTINGS
Grafton Group Limited
The Toronto Stock Exchange
Maher Inc. Preference Shares
The Toronto Stock Exchange

Grafton Group Limited

CANADA – 471 STORES

Alberta-36
Calgary (11)
Edmonton (12)
Lethbridge (3)
Lloydminster (2)
Medicine Hat (2)
Red Deer (3)
St. Albert (2)
Wetaskiwin

British Columbia-77
Campbell River
Chilliwack (2)
Clearbrook (3)
Courtenay (2)
Cranbrook (3)
Duncan
Ft. St. John
Grand Forks
Kamloops (4)
Kelowna
Langley (3)
Mission
Nanaimo (9)
Nelson
Penticton (2)
Port Alberni
Prince George (4)
Quesnel (2)
Smithers
Terrace
Trail (3)
Vancouver (24)
Victoria (3)
White Rock
Williams Lake (2)

Manitoba-27
Brandon (4)
Portage La Prairie (3)
Thompson
Winnipeg (19)

New Brunswick-19
Bathurst (4)
Campbellton
Douglastown (2)
Fredericton (3)
Moncton (4)
Saint John (5)

Newfoundland-7
Carbonear
St. John's (6)

Nova Scotia-29
Halifax (12)
New Glasgow (4)
Port Hawksbury (4)
Sydney (8)
Truro

Ontario-226
Ajax (2)
Barrie (3)
Belleville (4)
Bowmanville
Brampton (3)
Brantford (6)
Brockville
Burlington (7)
Cambridge
Chatham (3)
Cornwall (3)
Dundas (2)
Elliott Lake
Guelph
Hamilton (6)
Hanmer
Huntsville
Kapuskasing (2)
Kitchener (5)
Kingston (3)
London (11)
Milton (2)
New Liskeard
Newmarket (5)
Niagara Falls (5)
North Bay (5)
Orangeville (3)
Oshawa (4)
Ottawa (7)
Owen Sound (3)
Pembroke
Peterborough (3)
Picton
Sarnia (3)
Sault Ste. Marie
St. Catharines (4)
St. Thomas
Stoney Creek (6)
Stratford
Sudbury (7)
Tillsonburg (3)
Timmins (3)
Thunder Bay (2)
Toronto (69)
Trenton
Wallaceburg
Waterloo (4)
Welland (2)
Whitby
Windsor (8)
Woodstock (2)

Prince Edward Island-1
Charlottetown

Quebec-34
Alma
Hauterive
Cap de la Madeleine
Chicoutimi (2)
Drummondville
Granby
Hull (3)
Joliette
Jonquiere
Levis
Montreal (13)
Quebec City
Sept Iles
Sherbrooke
St. Jean
Tracy
Trois Rivieres (2)
Valleyfield

Saskatchewan-15
Moose Jaw (2)
Prince Albert (2)
Regina (5)
Saskatoon (4)
Weyburn
Yorkton

UNITED STATES — 82 STORES

Colorado-1
Grand Junction

Illinois-4
Chicago (2)
Galesburg
Moline

Iowa-27
Ames
Atlantic
Cedar Falls
Cedar Rapids (3)
Council Bluffs
Davenport
Decorah
Des Moines (3)
Fort Dodge
Dubuque
Fairfield
Iowa Falls
Marshalltown (2)
Mason City
Mt. Pleasant
Oskaloosa
Ottumwa
Sioux City (2)
Washington
Waterloo
West Burlington

Kansas-8
Hutchinson
Lawrence
Manhattan
Salina
Topeka (2)
Witchita (2)

Michigan-3
Grand Rapids
Kalamazoo
Saginaw

Minnesota-6
Brooklyn Centre
Burnsville
Duluth
Edina
St. Cloud
St. Paul

Nebraska-5
Grand Island
Lincoln (2)
Norfolk
Omaha

North Dakota-4
Bismarck
Fargo
Grand Forks
Minot

Oklahoma-1
Tulsa

South Dakota-1
Sioux Falls

Wisconsin-22
Appleton
Eau Claire
Fond de Lac
Green Bay (3)
La Crosse
Madison (5)
Marinette
Marshfield
Milwaukee
Oshkosh
Rice Lake
Stevens Point
Wausau (3)
Wisconsin Rapids

PORATE DIVISION – JULY 31 **AR39**

; 000's

Second Quarter			
ar	Last Year		
% Change	Amount	% of Total	% Change
40.8+	$11,100	22.3	13.3+
10.1+	22,789	45.8	8.3+
20.2+	33,889	68.1	9.9+
42.9+	33,889	68.1	9.9+
17.8+	11,810	23.8	17.2+
28.6+	11,810	23.8	17.2+
12.3+	4,009	8.1	23.4+
37.0+	$49,708	100.0	12.6+
3.9−	$ 1,548	54.3	.8−
21.2+	467	16.4	76.2+
24.5+	143	5.0	107.2+
59.1+	695	24.3	63.5+
17.0+	2,853	100.0	23.0+
1.0+	$ 2,853	100.0	23.0+
	$ .38		

ted)

Grafton Group Limited

Established 1853

File

INTERIM REPORT

for the

SIX MONTHS ENDED JULY 31, 1980

HIGHLIGHTS

First Half Results

	Omitting 000's		%
	1980	1979	Change
Sales	$117,614	$86,837	35.4+
Net income	$ 4,181	$ 4,063	2.9+
Earnings per Class A and Common share	$ .52	$ .50	4.0+

Second Quarter Results

Sales	$ 68,097	$49,708	37.0+
Net income	$ 2,882	$ 2,853	1.0+
Earnings per Class A and Common share	$ .39	$ .38	2.6+

(unaudited)

To our Shareholders

The most interesting yet traumatic event in the period covered by this report, as well as in our entire history, was the apparent decision by the F.W. Woolworth Co. of New York to rupture their relationship with Grafton Group Limited at some future date. I will return to this subject later in this communication.

Consolidated sales for the six months increased by 35.4% to $117,614,000 from $86,837,000 while second quarter sales increased by 37% to $68,097,000 from $49,708,000. Net income for the six months rose by 2.9% to $4,181,000 compared with $4,063,000 for the prior year. The second quarter net income was up 1% to $2,882,000 from $2,853,000. After provision for preference share dividends, earnings per class A and common share increased to 52¢ from 50¢ for the half.

Grafton-Fraser Inc.

Sales for the six months were $67,964,000, an increase of 15.4% from $58,897,000 for the preceding year. Second quarter sales increased to $40,719,000 from $33,889,000, a 20.2% increase, and include the George Richards Kingsize Division from May 1, 1980. Net income was $2,018,000 for the six months, a decrease of 14.9% from $2,370,000. Net income was $1,488,000 for the second quarter, a 3.9% decrease from $1,548,000.

The apparel retailing industry remains very competitive and this factor, combined with weak sales, has caused extreme pressure on margins.

On April 28, 1980, Grafton-Fraser Inc. completed the purchase of the 50% of George Richards Kingsize Clothes Limited not owned by the company in advance of the date of our contractual obligations. On April 30, 1980, George Richards Kingsize Clothes Limited was merged with Grafton-Fraser Inc. and is now operated as a division, with all financial results consolidated into Grafton-Fraser Inc. since that date. George Richards accounting, merchandising and administrative personnel have been relocated to Grafton House.

Maher Inc.

Sales rose 16.6% during the six months to $23,911,000 from $20,501,000. Second quarter sales were up 17.8% to $13,913,000 from $11,810,000. Net income amounted to $585,000, up from $554,000 for the prior period, while second quarter net income increased to $566,000 from $467,000 or 21.2%.

Toby Industries Limited

Sales were $8,567,000, an increase of 15.2% from $7,437,000 last year for the six months and were up 12.3% to $4,502,000 from $4,009,000 for the second quarter. Earnings to date are $297,000 compared with $233,000 a year ago. The bathroom products division accounted for all the sales increase but the backlog of orders for both divisions is now satisfactory.

Seifert's Inc.

Sales for the six months were $14,710,000 and $7,693,000 for the second quarter. The net loss to Grafton earnings for financing costs and amortization amounted to $369,000 for the six months and $356,000 for the second quarter. The severe farm recession continues to adversely affect sales and profits.

Elks Stores Limited

On September 26, 1980, the Company purchased all the shares of Elks Stores Limited owned by Mr. Manuel Elkind (32%) and all of the shares held in the Estate of the late Samuel Elkind (33%) at $2.25 per share. It is the intention of Grafton Group Limited to make an offer to all public shareholders. Elks operate 96 men's wear stores comprised of 324,000 sq. ft. mostly in shopping centres in Ontario and Quebec. The stores are well leased and well located, and offer opportunities in some instances, to be reapportioned in a more productive manner. We will be reviewing the optimum use possibilities for this space for implementation early next year. The Elks Company has not been profitable for the last few years due to, among other things, over leverage, high interest rates and excessive markdowns.

The stores fit well with us territorially and in terms of the products in which our managers have a good background of experience and should become profitable within a reasonable period of time. It will add potentially 35 million dollars of sales to our retail division. It is interesting to note after this transaction, the sales of Canadian Company Apparel Stores division will exceed the Woolco division and will likely grow at a greater compound rate over the next five years.

Grafton Group Limited

The Grafton Group investment income increased to $1,769,000 from $906,000 for the six months, due to increased dividends from the Portfolio.

We participated in varying percentages of direct ownership in the drilling of 32 gas and oil wells in the first six months, in both Canada and the U.S.A. and of these we have achieved about a 50% success ratio. It is anticipated by year-end, activity will have commenced on over 65 wells this year. The first cash flow on last year's successful activity, when 29 wells were drilled, is now starting to be received.

During the summer the British Columbia Securities Commission issued a cease trading order against Greywinds Investments Limited, G. R. Chater and W. P. Gilbride, concerning the shares of Grafton Group Limited. This order has since been rescinded. It now appears that this matter arose through the misfiling of a multi-page Insider Report some months previously and it became virtually impossible for the parties to ascertain the real cause of the filing discrepancies and of the order.

On October 23, 1980, The Amalgamated Clothing and Textile Workers Union commenced a strike against the Toby Division of Toby Industries Limited which is the first strike in the ten year history of the relationship of the parties. We deeply regret this damaging action, since the Company has made a proposal on wages significantly improved from an agreement reached by this union and a competitor of the Company within the last nine months. The Union's action is said to be based on Government-Union settlements during the last six months.

The precise prospects for sales and earnings for Grafton Group for the balance of this year are obscure, due to the continuing recession and its effect on the tax weary, inflation scarred consumer. In the longer range, however, conditions must improve and new challenges and opportunities seem to present themselves continuously. The managers of our divisions, of whom I am very proud, will be giving their utmost to achieve results that are consistent with past performance.

The F.W. Woolworth Relationship

The Woolworth decision inflicted great psychological stress on our Company, its directors, managers and employees. Many of our people have worked exclusively in the Woolco environment, some for as long as eighteen years, with a dedication, loyalty, creativity and efficiency which accomplished a great success. I am heartened by the outstanding morale that has been evidenced by all of our senior people and we intend to conduct ourselves in an honourable manner in the best interest of our employees and shareholders. I have had direct talks, on a number of occasions, with the senior officers of the F.W. Woolworth Co. in Toronto, with the Chairman and his associates in New York and with the senior partners of the Investment Bankers of Woolworth in New York, Goldman Sachs. We are prepared to endeavour to achieve a forthright resolution of the situation as rapidly as possible when our alternatives become clear, which, as yet, is not the case.

It has been satisfying to us, that since the Woolco announcement, most of the Company's Bankers at the highest level, as well as other Bankers, have called and assured us of their sympathy in the manner in which we appear to have been treated, their confidence in the Company's management and their sincere desire to make adequate financing available to us should significant acquisition opportunities present themselves.

This report has been unduly delayed because of our wish to be able to comment more concretely on the discussions with the Woolworth Co. It now appears that a final resolution is still likely to be some time in the future.

The quarterly dividends of 75¢ per Grafton Group preference share and 12¢ per class A and common share were paid on September 15, 1980, to shareholders of record September 1, 1980.

On Behalf of the Board of Directors

October 28, 1980 G. R. Chater, *President*

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

Six Month Period Ended July 31, 1980
(With Comparative Figures for 1979)

	Omitting 000's 1980	1979
Working Capital derived from		
Operations		
Net income for period	$ 4,181	$ 4,063
Items not involving working capital		
Depreciation	1,861	1,036
Deferred income taxes	550	41
Amortization	365	86
Equity income	(291)	(379)
Foreign exchange loss	46	
	6,712	4,847
Increase in non-current portion of long term debt	1,400	
Other	62	4
Working capital of subsidiary acquired	2,343	
	10,517	4,851
Working Capital applied to		
Additions to fixed assets	5,684	1,831
Dividends	2,302	1,187
Reduction of long term debt	202	
Investment in oil and gas properties	1,500	500
Acquisition of subsidiary	2,025	
	11,713	3,518
Increase (decrease) in working capital	(1,196)	1,333
Working capital at beginning of period	69,759	52,597
Working capital at end of period	$68,563	$53,930

(unaudited)

TWELVE MONTH COMPARATIVE TRAILING EARNINGS

	Amount (Omitting 000's)		Per Share	
Period Ending	**Current**	**Prior**	**Current**	**Prior**
Quarter 3 October 31, 1979-78	$ 3,068	$ 2,466	$ .41	$ .32
Quarter 4 January 31, 1980-79	11,079	9,214	1.70	1.40
Quarter 1 April 30, 1980-79	1,299	1,210	.13	.12
Quarter 2 July 31, 1980-79	2,882	2,853	.39	.38
	$18,328	$15,743	$2.63	$2.22

(unaudited)

SUMMARY OF DATA BY (

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	Curre	
Sales	**Amount**	**% of**
Apparel		
Grafton-Fraser Inc.		
Stores	$ 25,491	2
Licensed Woolco Departments	42,473	3
	$ 67,964	5
Seifert's Incorporated	14,710	1
	82,674	7
Footwear		
Maher Inc.	23,911	2
Oak-Bay Corporation	2,462	
	26,373	2
Toby Industries Limited	8,567	
Total Sales	$117,614	10
Net Income		
Grafton-Fraser Inc.	$ 2,018	4
Maher Inc.	585	1
Toby Industries Limited	297	
Grafton Group Limited	1,769	4
Canadian Income	4,669	11
Seifert's Incorporated	(369)	(
Oak-Bay Corporation	(119)	(
United States Income	(488)	(1
Total Net Income	$ 4,181	10
Earnings per Class A and Common Share	$ .52	

Gross Assets

Grafton-Fraser Inc.
Maher Inc.
Toby Industries Limited
Grafton Group Limited (net of consolidation adjustments)

Canadian assets

Seifert's Incorporated (including goodwill)
Oak-Bay Corporation (including goodwill)

United States Assets

Total Gross Assets

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PORATE DIVISION – JULY 31
g 000's

Six Months				
ear		Last Year		
l % Change		Amount	% of Total	% Change
30.5+		$19,529	22.5	14.9+
7.9+		39,368	45.3	6.7+
15.4+		$58,897	67.8	9.3+
40.4+		58,897	67.8	9.3+
16.6+		20,501	23.6	20.5+
28.6+		20,501	23.6	20.5+
15.2+		7,439	8.6	25.3+
35.4+		$86,837	100.0	13.0+
14.9−		$ 2,370	58.4	2.3−
5.6+		554	13.6	262.1+
27.5+		233	5.7	92.6+
95.3+		906	22.3	
14.9+		4,063	100.0	22.6+
2.9+		$ 4,063	100.0	22.6+
		$ .50		

Omitting 000's Six Months

Current Year		Last Year	
Amount	% of Total	Amount	% of Total
49,032	28.6	$ 40,909	36.3
18,974	11.1	16,154	14.3
10,393	6.1	8,095	7.2
51,353	29.9	47,576	42.2
129,752	75.7	112,734	100.0
38,530	22.5		
3,085	1.8		
41,615	24.3		
171,367	100.0	$112,734	100.0

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SUMMARY OF DATA BY CO
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	Current Y	
	Amount	% of Tot
Sales		
Apparel		
Grafton-Fraser Inc.		
Stores	$ 15,633	23.0
Licensed Woolco Departments	25,086	36.8
	40,719	59.8
Seifert's Incorporated	7,693	11.3
	48,412	71.1
Footwear		
Maher Inc.	13,913	20.4
Oak-Bay Corporation	1,270	1.9
	15,183	22.3
Toby Industries Limited	4,502	6.6
Total Sales	$ 68,097	100.0
Net Income		
Grafton-Fraser Inc.	$ 1,488	51.6
Maher Inc.	566	19.6
Toby Industries Limited	178	6.2
Grafton Group Limited (net of consolidation adjustments)	1,106	38.4
Canadian Income	3,338	115.8
Seifert's Incorporated (after financing costs)	(356)	(12.3)
Oak-Bay Corporation (after financing costs)	(100)	(3.5)
United States Income	(456)	(15.8)
Total Net Income	$ 2,882	100.0
Earnings per Class A and Common Share	$ .39	

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CONSOLIDATED STATEMENT OF INCOME

	Second Quarter Omitting 000's			Six Month Period Ended July 31 Omitting 000's		
	1980	1979	% Change	1980	1979	% Change
Sales						
Retail Division						
Apparel						
Grafton-Fraser Inc.	$40,719	$33,889	20.2+	$ 67,964	$58,897	15.4+
Seifert's Incorporated	7,693			14,710		
	48,412	33,889	42.9+	82,674	58,897	40.4+
Footwear						
Maher Inc.	13,913	11,810	17.8+	23,911	20,501	16.6+
Oak-Bay Corporation	1,270			2,462		
	15,183	11,810	28.6+	26,373	20,501	28.6+
	63,595	45,699	39.2+	109,047	79,398	37.3+
Home Furnishings Division	4,502	4,009	12.3+	8,567	7,439	15.2+
Total Sales (comparable entities)	57,600	49,708	15.9+	98,908	86,837	13.9+
Total Sales	68,097	49,708	37.0+	117,614	86,837	35.4+
Cost of sales and expenses other than undernoted	61,229	44,628	37.2+	107,280	79,241	35.4+
Income from operations before the following	6,868	5,080	35.2+	10,334	7,596	36.0+
Interest Income (net)	(782)	272		(1,112)	640	
Investment Income	552	182	203.3+	1,409	315	347.3+
Equity Income	291	379	23.2−	291	379	23.2−
	61	833	92.7−	588	1,334	55.9−
Income from operations before taking into account the undernoted items	6,929	5,913	17.2+	10,922	8,930	22.3+
Depreciation	1,004	541	85.6+	1,861	1,036	79.6+
Interest on long term debt	1,237	417	196.6+	2,656	833	218.8+
Amortization of goodwill	203	35	480.0+	365	71	414.1+
	2,444	993	146.1+	4,882	1,940	151.6+
Income before income taxes and minority shareholders' interest	4,485	4,920	8.8−	6,040	6,990	13.6−
Income taxes	1,579	2,043	22.7−	1,812	2,880	37.1−
Income before minority shareholders' interest	2,906	2,877	1.0+	4,228	4,110	2.9+
Preference share dividends paid to minority shareholders of Maher Inc.	24	24		47	47	
Net income for period	$ 2,882	$ 2,853	1.0+	$ 4,181	$ 4,063	2.9+
Earnings per share	$ .39	$ .38	2.6+	$ .52	$ .50	4.0+

(unaudited)

STATISTICAL DATA

Quarter	Sales	Operating Income	Pre-tax Income	Income Taxes	Net Income	Provision for Preference Share Dividends	Net Income to Class A and Common Shares	Earnings per Class A and Common Share
This Year								
1st	$ 49,517	$ 3,466	$ 1,555	$ 233	$ 1,299	$ 468	$ 831	$ .13
2nd	68,097	6,868	4,485	1,579	2,882	462	2,420	.39
Six Months	$117,614	$10,334	$ 6,040	$ 1,812	$ 4,181	$ 930	$ 3,251	$ .52
Last Year								
1st	$ 37,129	$ 2,516	$ 2,070	$ 837	$ 1,210	$ 469	$ 741	$ .12
2nd	49,708	5,080	4,920	2,043	2,853	468	2,385	.38
3rd	58,511	6,247	5,158	2,067	3,068	469	2,599	.41
4th	95,346	21,127	19,667	8,564	11,079	468	10,611	1.70
Total	$240,694	$34,970	$31,815	$13,511	$18,210	$1,874	$16,336	$2.61

(unaudited)